Isle of Wight Council

TREASURY MANAGEMENT STRATEGY STATEMENT

2018-19

Document Information

Title: Status:	Treasury Management Strategy Statement 2018-19 DRAFT
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Consultation:	*Treasury Management Group*
Approved by: Approval Date:	*Audit Committee*
Review Frequency: Next Review:	Annual February 2019

Version History		
Version	Date	Description
1.0	27 December 2017	First draft – template review
1.1	10 January 2018	Second Draft – for 3rd party review
1.2	22 January 2018	TM Group review
1.3	06 February 2018	Final revisions and match to budget paper

Contents

1 Introduction

1.1 The Isle of Wight Council defines its treasury management activities as "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".

1.2 In February 2003 the council originally adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (as subsequently updated) (the CIPFA Code) which requires the council to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, and the new Code was published in December 2017.

1.3 In addition, Department for Communities and Local Government (CLG) *Guidance on Local Authority Investments* issued in March 2010 that requires the council to approve an investment strategy before the start of each financial year. The Ministry of Housing, Communities and Local Government (MHCLG) issued revised *Statutory Guidance on Local Government Investments* in February 2018, following consultation in 2017.

1.4 This report fulfils the council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the MHCLG Guidance. This report does not reflect the changes to the Treasury Management Code, nor does it included the changes to the MHCLG Guidance. The council's treasury management adviser, Arlingclose Limited, has confirmed that no changes are required to 2018/19 investment strategy and minimum revenue provision (MRP) statement as currently drafte.

1.5 The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the council's treasury management strategy.

1.6 **Revised strategy:** In accordance with the MHCLG Guidance, the council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the council's capital programme or in the level of its investment balance.

2 External Context

2.1 **Economic background:** The major external influence on the council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

2.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee (MPC) judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the MPC raised official interest rates to 0.5% in November 2017.

2.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

2.4 **Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

2.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ring-fence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

2.6 The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

2.7 **Interest rate forecast:** The council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The MPC re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

2.8 Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

2.9 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

2.10 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.40%, and that new long-term loans will be borrowed at an average rate of 2.42%.

3 Local Context

3.1 On 31 December 2017, the council held £150.8 million of borrowing and £10.9 million of investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
Total CFR	**300.5**	**356.3**	**431.8**	**479.8**	**479.6**
Less: Other debt liabilities *	(85.6)	(101.9)	(107.0)	(100.7)	(100.0)
Borrowing CFR	**214.9**	**254.4**	**324.8**	**379.1**	**379.6**
Less: External borrowing **	(159.8)	(138.1)	(122.9)	(117.7)	(110.5)
Internal borrowing	**55.1**	**116.3**	**201.9**	**261.4**	**269.1**
Less: Usable reserves	(65.9)	(57.9)	(56.4)	(56.6)	(56.6)
Less: Working capital	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Investments / (New borrowing)	**14.2**	**(55.0)**	**(142.1)**	**(201.4)**	**(209.1)**

* finance leases, PFI liabilities and transferred debt that form part of the council's total debt
** shows only loans to which the council is committed and excludes optional refinancing

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.3 The council's total CFR is increasing due to a number of factors, the most significant of which relate to the financing of the council's Highways PFI (HPFI) and Waste contracts plus the intention by the council to establish a £100m Commercial Property Acquisition Fund which is planned to be in place by the end of March 2020.

3.4 Borrowing is for the capital programme which has previously been financed temporarily by HPFI surplus grant income.

3.5 The council's borrowing CFR is also increasing as a result of the Waste contract which was approved by the council in July 2015, and includes the requirement to borrow approximately £80m over the life of the contact, of which £62m is required in the first three years.

3.6 Other planned borrowing relates to the establishment of the Commercial Property Acquisition Fund, intended to generate revenue income streams for the council over the long term in accordance with the approved Commercial Property Investment Strategy governing the use of the fund.

3.7 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the council's external borrowing should be lower than its highest forecast borrowing CFR over the next three years. Table 1 shows that the council expects to comply with this recommendation during 2018/19.

4 Borrowing Strategy

4.1 The council currently holds £150.8 million of loans, a decrease of £9.0 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the council expects to borrow up to £142.1 million in 2018/19. The council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for external borrowing of £357.3 million for 2018/19 (see Prudential Indicator 5 – **Appendix C**).

4.2 **Objectives:** The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the council's long-term plans change is a secondary objective.

4.3 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.4 By doing so, the council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of either internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the council with this 'cost of carry' and breakeven analysis. Its output may determine whether the council borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5 Alternatively, the council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.6 In addition, the council may borrow further short-term loans to cover unplanned cash flow shortages.

4.7 **Sources:** The council may borrow from any reputable source including:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Isle of Wight Council Pension Fund)
- capital market bond investors

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.8 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.9 The council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

4.10 **Municipal Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full council.

4.11 **LOBOs:** The council holds £5.0 million of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost. The full balance of these LOBOs has options during 2018/19, and although the council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £5m.

4.12 **Short-term and Variable Rate loans**: These loans leave the council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

4.13 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5 Investment Strategy

5.1 As at 31 December 2017 the council held invested funds of £10.9 million, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the council's investment balance has ranged between £9.6 and £51.4 million, and similar levels are expected to be maintained in the forthcoming year.

5.2 **Objectives:** Both the CIPFA Code and the MHCLG Guidance require the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the council will aim to achieve a total return that is equal or higher than the 1 year London Interbank Bid Rate (LIBID).

5.3 **Negative Interest Rates:** If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.4 **Strategy:** The council does not intend holding significant long term surplus cash balances in 2018/19, so will continue to maintain its strategy of investing with bank deposits, local authorities and money market funds to ensure liquidity is maintained. Should long term funds become available then alternative investments will be utilised within the parameters of this strategy

5.5 **Approved Counterparties:** The council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government including Local Government	Corporates	Registered Providers
UK Gov't	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AA- or better	£8.0m 5 years	£8.0m 10 years	£10.0m 10 years	£8.0m 4 years	£8.0m 10 years
A+	£8.0m 2 years	£8.0m 3 years	£5.0m 5 years	£8.0m 3 years	£8.0m 5 years
A	£8.0m 13 months	£8.0m 2 years	£5.0m 5 years	£8.0m 2 years	£8.0m 5 years
A-	£8.0m 6 months	£8.0m 13 months	£5.0m 5 years	£8.0m 13 months	£8.0m 5 years
None	£1.0m 6 months	n/a	£10.0m 25 years	£50,000 5 years	£8.0m 5 years
Pooled funds		£8.0m per fund			

This table must be read in conjunction with the notes below

5.6 **Credit Rating:** Institutions are deemed to be credit rated when they have at least two credit ratings from Fitch, Moody's or Standard & Poor's. Exceptions to this are enhanced money market funds and registered social landlords/registered providers for which a single credit rating will be required. Industry practice is for enhanced money market funds to have a single credit rating, but such funds are well diversified. Most registered providers (RPs) are only rated by a single agency. However RPs are regulated by the Homes and Communities Agency (HCA) which rates the financial viability of RPs. It is recommended that investments are only placed with RPs that have a financial viability rating of V1 from the HCA.

5.7 Investment limits are set by reference to the average published long-term credit rating from Fitch, Moody’s or Standard & Poor’s. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.8 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.9 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank’s assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.10 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.11 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

5.12 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

5.13 **Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.14 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly.

5.15 **Operational bank accounts**: The council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances in such accounts will therefore be kept below £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity

5.16 **Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.17 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then then no new investments will be made with that organisation until the outcome of the review is announced. This policy will also apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.18 **Other Information on the Security of Investments**: The council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.19 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.20 **Specified Investments**: The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

5.21 The council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.22 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. The limits on total non-specified investments are shown in table 3 below. The individual category limits in table 3 may be exceeded provided that the limit on total non-specified investments is not exceeded.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£35m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£5m
Total non-specified investments	**£45m**

5.23 **Investment Limits**: The council's revenue reserves available to cover investment losses are forecast to be £61.4 million on 31 March 2018. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government including Local

Authorities) will be £8.0 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£8.0m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£8.0m per group
Any group of pooled funds under the same management	£8.0m per manager
Foreign Countries	£8.0m per country
Registered Providers	£20.0m in total
Unsecured investments with Building Societies	£10.0m in total
Loans to unrated corporates	£10.0m in total
Money Market Funds	£25.0m in total

5.24 **Liquidity Management:** The council uses the Logotech PSTM system, purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a cautious basis, with receipts under-estimated and payments over-estimated, to minimise the risk of the council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council's medium term financial plan and cash flow forecast.

5.25 **Non-Treasury Investments** Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the MHCLG Guidance, the council may also purchase commercial property for investment purposes.

Such loans and investments will be subject to the council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

6 Treasury Management Indicators

The council measures and manages its exposures to treasury management risks using the following indicators.

6.1 **Liquidity:** The council maintains detailed cash flow forecasts with a view to keeping minimum surplus cash balances. It addresses liquidity issues by restricting a significant proportion of its investment opportunities to short term and instant access deposits.

6.2 **Interest Rate Exposures (Borrowing and Lending)**: This indicator is set to control the council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	357.3	417.0	417.6
Upper limit on variable interest rate exposure	201.9	261.4	269.1

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the transaction date. All other instruments are classed as variable rate.

6.3 **Maturity Structure of Borrowing:** This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	50%	0%
10 years and above	95%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

As a consequence of decision to borrow short, to take advantage of very low borrowing rates, the proportion of short term debt is high in 2018-19. This is consistent with previous strategies.

6.4 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£35m	£40m	£45m

7 Other Items

There are a number of additional items that the council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

7.1 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

7.2 The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy

7.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign region limit.

7.4 **Investment Training:** The needs of the council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

7.5 Staff are given the opportunity to attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

7.6 **Investment Advisers:** The council has recently re-appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed at an annual meeting, and advice is assessed through regular contact and meetings with the advisers throughout the year to review the outcomes of their advice.

7.7 **Investment of Money Borrowed in Advance of Need**: The council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the council's overall management of its treasury risks.

7.8 The total amount borrowed will not exceed the authorised borrowing limit of £357.3 million. The maximum period between borrowing and expenditure is expected to be three years, although the council is not required to link particular loans with particular items of expenditure.

8 Financial Implications

8.1 The budget for investment income in 2018/19 is £0.16 million, based on an average investment portfolio of £40 million at an interest rate of 0.4%. The budget for debt interest paid in 2018/19 is £8.6 million, based on an average debt portfolio of £217.7 million at an average interest rate of 3.94%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

9 Other Options Considered

9.1 The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted the members of the Audit Committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast (November 2017)

Underlying assumptions:

1 In a 7-2 vote, the Monetary Policy Committee (MPC) increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

2 Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

3 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

4 Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

5 Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK’s fiscal position.

6 The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

7 Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

8 Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

1 The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

2 Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

3 The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.26
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
Arlingclose Central Case	0.70	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.39

Appendix B – Existing Investment & Debt Portfolio Position

	31 December 2017 Actual Portfolio £m	31 December 2017 Average Rate %
External Borrowing:		
Public Works Loan Board	125.8	4.47%
Local authorities	20.0	0.54%
LOBO loans from banks	5.0	4.27%
Total External Borrowing	**150.8**	**3.94%**
Other Long Term Liabilities:		
PFI	102.0	
Finance Leases	0.4	
Transferred Debt	-	
Total Gross External Debt	**253.2**	
Investments:		
Banks & building societies (unsecured)	-	-
Government (incl. local authorities)	6.9	0.52%
Money Market Funds	4.0	0.35%
Total Investments	**10.9**	**0.46%**
Net Debt	**242.3**	

Appendix C - Prudential Indicators 2018/19

The Local Government Act 2003 requires the council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1. **Estimates of Capital Expenditure:** The council's planned capital expenditure and financing may be summarised as follows. Further detail will be provided in an Appendix of the council's "Budget and Council Tax Setting 2018/19 and Future Years Forecasts" paper which will be presented to Full Council on 28 February 2018.

Capital Expenditure and Financing	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Total Expenditure	**52.9**	**95.3**	**61.5**	**0.9**
Capital Receipts	6.4	9.1	1.6	0.2
Government Grants	11.6	15.1	5.4	-
Reserves	1.4	1.1	2.2	0.7
Revenue	-	-	-	-
Borrowing	33.5	70.0	52.3	-
Leasing and PFI	-	-	-	-
Total Financing	**52.9**	**95.3**	**61.5**	**0.9**

2. **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the council's underlying need to borrow for a capital purpose.

   The CFR is forecast to rise by £123.3m over the next three years due to further investment in the waste contact, and as historic capital expenditure financed by debt outweighs resources put aside for debt repayment, principally as a result of the Highways PFI project. The CFR for 31 March 2019 and 2020 include the proposed purchase of the investment property.

Capital Financing Requirement	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Total CFR	356.3	431.8	479.8	479.6

3. **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Borrowing	176.6	264.4	353.7	346.5
Finance leases	0.4	0.3	0.1	-
PFI liabilities	101.5	106.7	100.6	100.0
Transferred debt	-	-	-	-
Total Debt	**278.5**	**371.4**	**454.4**	**446.5**

Total debt is expected to remain below the CFR during the forecast period.

4. **Operational Boundary for External Debt:** The operational boundary is based on the council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the council's debt.

Operational Boundary	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	254.4	324.8	379.1	279.6
Other long-term liabilities	101.9	107.0	100.7	100.0
Total Debt	**356.3**	**431.8**	**479.8**	**479.6**

5. **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	279.8	357.3	417.0	417.6
Other long-term liabilities	101.9	107.0	100.7	100.0
Total Debt	**381.7**	**464.3**	**517.7**	**517.6**

6. **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	7.4%	13.6%	25.5%	7.9%

7. **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund – increase / (decrease) in annual band D Council Tax	(3.83)	(2.51)	(0.06)

The ratio above in respect of the impact of additional borrowing on Council Tax charges is purely illustrative. Should the cost of borrowing increase, the additional costs would have to be funded through savings in other areas, rather than being passed directly to council tax-payers.

The key focus of the treasury management strategy, and the associated prudential indicators, is to ensure that the council's commitments within its capital programme are prudently and affordably financed, without disadvantaging other areas of service delivery

8. **Adoption of the CIPFA Treasury Management Code:** The council originally adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (as subsequently updated) in February 2003.

Appendix D – Annual Minimum Revenue Provision Statement 2018/19

1 Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the council to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in February 2018.

2 The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3 The MHCLG Guidance requires the council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

4 The Capital Financing Requirement (CFR) represents the underlying requirement to borrow for capital investment. The council expects that its CFR will be £356.3 million on 31 March 2018.

5 The council has adopted the annuity method for capital expenditure. This method will ensure the repayment of the debt better reflects the consumption of these assets financed. MRP will be determined by charging the expenditure over the expected useful life of the relevant asset. This being equal to the principal repayment on an annuity with an annual interest rate equal to the relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 40 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

6 MRP will continue to be provided as principal repayments for finance leases and PFI arrangements as principal repayments are made to the lessor or the PFI operator**.** MRP will be determined as being equal to the element that goes to write down the balance sheet liability.

7 For capital expenditure loans to third parties the income received has an interest and principal element. The principal element will be taken to reduce the asset on the balance sheet. The principal element of the repayment will be set aside to repay the borrowing that has financed these assets.

8 Based on the council's latest estimate of its Capital Financing Requirement on 31 March 2018, the MRP charge for 2018-19 will be £8.2 million as the change to the annuity method has created a payment holiday from 1 April 2016.

	31.03.2018 Estimated CFR £m	**2018/19 Estimated MRP £**
Capital expenditure before 01.04.2008	**1.4**	1.4
Capital expenditure after 31.03.2008	**2.5**	3.1
Finance leases and Private Finance Initiative	**4.0**	11.5
Overprovision from change in methodology	**(7.3)**	(7.8)
Total General Fund	**0.6**	**8.2**

Appendix E – Treasury Management Practices (TMPs)

TMP1 – Risk management
The Director of Finance and Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council's objectives in this respect, all in accordance with the procedures set out in *TMP6 – Reporting requirements and management information arrangements.*

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedules to this document.

TMP1[1] Credit and counterparty risk management
The council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 – Approved instruments, methods and techniques* and listed in section 5 of this strategy document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

TMP1[2] Liquidity risk management
The council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

TMP1[3] Interest rate risk management
The council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 – Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools, such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

TMP1[4] Exchange rate risk management
The council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

TMP1[5] Refinancing risk management
The council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the council as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

TMP1[6] Legal and regulatory risk management
The council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1[1] Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the council, particularly with regard to duty of care and fees charged.

The council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the council.

TMP1[7] Fraud, error and corruption, and contingency management
The council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

TMP1[8] Market risk management
The council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 – Performance measurement
The council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

Treasury management performance measures are included in the Financial Management service board report.

On a quarterly basis, the treasury management function reports on:

- Actual external borrowing compared to the authorised and operational limits agreed in the prudential indictors.

Annually, the treasury management function reports on:

- The average cost of long term debt – ensuring that the borrowings made minimise costs to the council.
- The affordability measures concerning the cost of borrowing as contained in the Prudential Indicators.
- The difference between actual external borrowing and the Capital Financing Requirement.

These performance measures are reported to the Financial Management mini service board meeting, and are included in the reports made to audit committee throughout the year.

The council also subscribes to the CIPFA Treasury Management Benchmarking Club, which enables comparison of the council's performance to other local authorities, in terms of interest payable and receivable, investment performance, borrowing requirements and maturity profiles, and the costs of carrying out treasury management activities and benefits from benchmarking information provided by it treasury management advisor Arlingclose

TMP3 – Decision-making and analysis

The council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

The Director of Finance and Section 151 Officer is responsible for treasury management decisions.

On a daily basis, decisions regarding investments of short term cash surpluses are made by the Treasury Management Assistant, in discussion with the Pension Fund and Treasury Management Accountant, and reviewed and approved by the Technical Finance Manager.

A Treasury Management Group meeting is held as required to make decisions regarding borrowing requirements, changes to the approved lending and borrowing lists, and any other strategic treasury management decisions. The members of the Treasury Management Group are the Director of Finance and Section 151 Officer, the Strategic Manager - Finance, the Technical Finance Manager, the Pension Fund and Treasury Management Accountant and three Principal Accountants. Notes of these meetings are taken to support decisions made.

Any changes to the Treasury Management Strategy made throughout the year will be reported to the audit committee.

TMP4 – Approved instruments, methods and techniques

The council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in this document, and within the limits and parameters defined in *TMP1 – Risk management.*

Where the council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products. The use of such instruments will be reported to the Audit Committee.

TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements
The council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance and Section 151 Officer will ensure that the reasons are properly reported in accordance with *TMP6 – Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Director of Finance and Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Finance and Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The Director of Finance and Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Director of Finance and Section 151 Officer in respect of treasury management are set out in the council's Constitution. The Director of Finance and Section 151 Officer will fulfil all such responsibilities in accordance with the council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP6 – Reporting requirements and management information arrangements
The council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the audit committee will receive:
- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the council's treasury management policy statement and TMPs.

The full council will receive and approve the annual strategy and plan to be pursued in the coming year, as part of the council's budget strategy.

The audit committee will receive regular monitoring reports on treasury management activities and risks.

The audit committee will have responsibility for the scrutiny of treasury management policies and practices.

The council will report the treasury management indicators as detailed in the Code's sector-specific guidance notes.

TMP7 – Budgeting, accounting and audit arrangements
The Director of Finance and Section 151 Officer will prepare, and the council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 – Risk management*, *TMP2 – Performance measurement*, and *TMP4 – Approved instruments, methods and techniques*.

The Director of Finance and Section 151 Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with *TMP6 – Reporting requirements and management information arrangements*. The council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 – Cash and cash flow management
Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the council will be under the control of Director of Finance and Section 151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance and Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1[2] Liquidity risk management*.

The council uses the Logotech Public Sector Treasury Management (PSTM) system for recording cash flow movements and creating cash flow forecasts.

Daily cash flow activities are recorded on the system and the daily bank balances reconciled.

Cash flow forecasts, based on historic activity and current year budget assumptions, are prepared at the start of each financial year, and are discussed at the treasury management meetings detailed under *TMP3 – Decision-making and analysis* above.

TMP9 – Money laundering
The council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.
The council's Anti-Money Laundering Policy sets out the council's procedures to prevent the use of council services for money laundering purposes, including the name of the officer to whom reports should be made.

TMP10 – Training and qualifications
The council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance and Section 151 Officer will recommend and implement the necessary arrangements.

The Director of Finance and Section 151 Officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 – Use of external service providers
The council recognises that responsibility for treasury management decisions remains with the council at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance and Section 151 Officer.

TMP12 – Corporate governance
The council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedules to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance and Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.