

**NORTH YORKSHIRE COUNTY COUNCIL
AUDIT COMMITTEE
7 MARCH 2019**

TREASURY MANAGEMENT STRATEGY

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

- 1.1 To review the 2019/20 Treasury Management Policy Statement
- 1.2 To review the 2019/20 Annual Treasury Management and Investment Strategy

- 2.0 In its scrutiny role of the County Council's Treasury Management policies, strategies and day-to-day activities, the Audit Committee receives regular Treasury Management reports. These reports provide Audit Committee Members with details of the latest Treasury Management developments, both at a local and national level and enable them to review Treasury Management arrangements and consider whether they wish to make any recommendations to the Executive.
- 2.1 As the County Council is required to approve an up to date Annual Treasury Management and Investment Strategy before the start of the new financial year, it is therefore not realistic for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by County Council on 20 February 2019.
- 2.2 As in recent years it is therefore proposed that the Treasury Management Policy Statement (**Appendix A**) and updated Annual Treasury Management and Investment Strategy for 2019/20 (**Appendix B**) is submitted for review by the Audit Committee on 7 March 2019. Any resulting proposals for change would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the (by then) recently approved Strategy document the Executive would submit a revised document to the County Council at its meeting on 15 May 2019

3.0 RECOMMENDATIONS

- 3.1 That members:
 - i. Review the 2019/20 Treasury Management Policy Statement and Annual Investment Strategy
 - ii. Identify any areas requiring change

GARY FIELDING
Corporate Director, Strategic Resources
March 2019

NORTH YORKSHIRE COUNTY COUNCIL**TREASURY MANAGEMENT POLICY STATEMENT****1.0 BACKGROUND**

- 1.1 The County Council has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2017. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.
- 1.2 The CIPFA Code of Practice on Treasury Management requires the County Council to adopt the following four clauses of intent:
- a) the County Council will create and maintain as the cornerstone for effective Treasury Management
 - i. a strategic **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of the County Council to its treasury management activities;
 - ii. a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;
 - b) the County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources who will act in accordance with the Council's TMPS, TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;
 - c) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies; and
 - d) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.
- 1.3 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2017) and the terms of the **Local Government Act 2003**, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely
- a) the approval, on an annual basis, of a set of **Prudential Indicators**; and
 - b) approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, an annual **Minimum Revenue Provision**

(MRP) policy statement and a **Capital Strategy** with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

1.4 This current Treasury Management Policy Statement (TMPS) was approved by County Council on 20 February 2019.

2.0 **TREASURY MANAGEMENT POLICY STATEMENT (TMPS)**

2.1 Based on the requirements detailed above a TMPS stating the policies and objectives of the treasury management activities of the County Council is set out below.

2.2 The County Council defines the policies and objectives of the treasury management activities of the County Council as follows:-

- a) the management of the County Council'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;
- b) the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the County Council and any financial instrument entered into to manage these risks; and
- c) effective treasury management will provide support towards the achievement of the business and service objectives of the County Council as expressed in the Council Plan. The County Council is committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.3 As emphasised in the Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the County Council and all officers involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.0 **TREASURY MANAGEMENT PRACTICES (TMPs)**

3.1 The CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

- a) set out the manner in which the County Council will seek to achieve the policies and objectives; and
- b) prescribe how the County Council will manage and control those activities;

3.2 The CIPFA Code of Practice recommends 12 TMPs. These updated documents were approved by the Audit Committee on 6 December 2012.

3.3 A list of the 12 TMPs is as follows:-

TMP 1 Risk management

TMP 2 Performance measurement

TMP 3 Decision-making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money Laundering

TMP 10 Training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the County Council to “have regard to” the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in December 2017, requires the County Council to set a range of Prudential Indicators for the next three years

a) as part of the annual Budget process, and;

b) before the start of the financial year;

to ensure that capital spending plans are affordable, prudent and sustainable.

4.2 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set.

4.3 The required Prudential Indicators are as follows:-

- Capital Expenditure - Actual and Forecasts
- estimated ratio of capital financing costs to the Net Revenue Budget
- Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- authorised Limit for External Debt
- operational Boundary for External Debt
- Actual External Debt
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

4.4 The County Council will approve the Prudential Indicators for a three year period alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year. The Indicators will be monitored during the year and necessary revisions submitted as necessary via the Quarterly Performance and Budget Monitoring reports.

4.5 In addition to the above formally required Prudential Indicators, the County Council has also set two local ones as follows:

- a) to cap Capital Financing costs to 10% of the net annual revenue budget; and
- b) a 30% limit on money market borrowing as opposed to borrowing from the Public Works Loan Board.

5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

5.1 A further implication of the Local Government Act 2003 is the requirement for the County Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments).

5.2 The Government's guidance on the Annual Investment Strategy, updated in February 2018, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The County Council has adopted this combined approach.

5.3 Further statutory Government guidance, last updated with effect from February 2018, is in relation to an authority's charge to its Revenue Budget each year for debt repayment. A Minimum Revenue Provision (MRP) policy statement must be prepared

each year and submitted to the full Council for approval before the start of the financial year.

- 5.4 The County Council will approve this combined Annual Strategy alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year.

6.0 REVIEW OF THIS POLICY STATEMENT

- 6.1 Under Financial Procedure Rule 14, the Corporate Director – Strategic Resources is required to periodically review this Policy Statement and all associated documentation. A review of this Statement, together with the associated annual strategies, will therefore be undertaken annually as part of the Revenue Budget process, together with a mid year review as part of the Quarterly Treasury Management reporting process and at such other times during the financial year as considered necessary by the Corporate Director – Strategic Resources.

Approved by County Council
20 February 2019

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT
AND INVESTMENT STRATEGY 2019/20

1.0 INTRODUCTION

1.1 Treasury Management is defined as

“The management of the County Council’s borrowing, 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 The Local Government Act 2003, and supporting regulations, require the County Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators for the next three years to ensure that the County Council’s capital investment plans are affordable, prudent and sustainable.

1.3 The Act also requires the County Council to set out its **Annual Treasury Management Strategy** for borrowing and to prepare an **Annual Investment Strategy** (as required by Investment Guidance issued subsequent to the Act) which sets out the County Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments. For practical purposes these two strategies are combined in this document.

1.4 This Strategy document for 2019/20 therefore covers the following;

- treasury limits in force which will limit the treasury risk and activities of the County Council (**Section 2**)
- Prudential indicators (**Section 3**)
- current treasury position (**Section 4**)
- borrowing requirement and borrowing limits (**Section 5**)
- borrowing policy (**Section 6**)
- prospects for interest rates (**Section 7**)
- borrowing strategy (**Section 8**)
- capping of capital financing costs (**Section 9**)
- review of long term debt and debt rescheduling (**Section 10**)

- minimum revenue provision policy (**Section 11**)
- annual investment strategy (**Section 12**)
- other treasury management issues (**Section 13**)
- arrangements for monitoring/reporting to Members (**Section 14**)
- specified investments (**Schedule A**)
- non-specified investments (**Schedule B**)
- approved lending list (**Schedule C**)
- approved countries for investments (**Schedule D**)
- Prudential Indicators (**Schedule E**)

1.5 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the County Council to produce a balanced Annual Revenue Budget. In particular, Section 32 requires a local authority to calculate its Budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby additional charges to the Revenue Budget arising from:-

- a) increases in interest and principal charges caused by increased borrowing to finance additional capital expenditure, and/or;
- b) any increases in running costs from new capital projects

are affordable within the projected revenue income of the County Council for the foreseeable future.

1.6 These issues are addressed and the necessary assurances provided by the Section 151 officer (the Corporate Director – Strategic Resources) in the 2019/20 Revenue Budget and Medium Term Financial Strategy report considered separately by the Executive on 29 January 2019 and approved by the County Council on 20 February 2019.

1.7 The Annual Treasury Management and Investment Strategy was approved by the County Council on 20 February 2019.

2.0 **TREASURY LIMITS FOR 2019/20 TO 2021/22**

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the County Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the **Affordable Borrowing Limit**.

2.2 The County Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital

investment remains within sustainable limits and, in particular, that the impact upon future Council Tax levels is acceptable. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators.

2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.0 PRUDENTIAL INDICATORS FOR 2019/20 TO 2021/22

3.1 The current Capital Finance system introduced is underpinned by the **CIPFA Prudential Code for Capital Finance in Local Authorities**. In order to ensure that capital spending plans are affordable, prudent and sustainable, this Code requires every local authority to set a range of Prudential Indicators

- a) as part of the Revenue Budget process, and
- b) before the start of the financial year

3.2 **Schedule E** to this Report sets out the proposed updated Prudential Indicators to 2021/22. This Appendix sets out every Prudential Indicator in terms of:

- a) Indicators approved in August 2018
- b) a revised set of Indicators with the addition of 2021/22
- c) appropriate comments on each Indicator including reasons for any significant variations

4.0 CURRENT TREASURY POSITION

4.1 The County Council's treasury portfolio position at 31 March 2018 consisted of:

Item	Principal £m	Average Rate at 31 March 2018 %
Debt Outstanding		
Fixed Rate funding		
PWLB	267.5	4.42
Variable Rate funding	0.0	0.00
Market LOBO's	20.0	3.95
Total Debt Outstanding	287.5	4.39
Investments		
Managed in house	294.8	0.49
Net Borrowing	-7.3	

5.0 BORROWING REQUIREMENT AND BORROWING LIMITS

5.1 The County Council's annual borrowing requirement consists of the capital financing requirement generated by capital expenditure in the year, plus replacement borrowing for debt repaid less a prudent Minimum Revenue Provision charged to revenue for debt payment. These borrowing requirements are set out below.

Year	Basis	£m	Comment
2017/18	actual	0	No actual external borrowing was undertaken in 2017/18. The total requirement was £15.4m
2018/19	requirement	13.2	The much higher figure for later years includes the 'refinancing' significant PWLB loan repayments
2019/20	estimate	20.4	
2020/21	estimate	19.2	
2021/22	Estimate	19.0	

5.2 The Prudential Indicators include an **Operational Boundary** (an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year) and **Authorised Limit** (the same estimate as the Operational Boundary but allows sufficient headroom (£20m) over this figure to allow for unusual cash movements).

5.3 The **Authorised Limit** therefore represents the maximum amount of external debt which the County Council approves can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the County Council will have to borrow up to the Limit agreed.

5.4 **The 2019/20 Limits are as follows:**

	£m
Operational Boundary for external debt	517.2
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2019/20	537.2

5.5 All the debt outstanding estimates and the Prudential Indicators relating to external debt are based on annual capital borrowing requirements being taken externally and therefore increasing debt outstanding levels. Consideration will be given, however, to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (i.e. running down investments).

6.0 BORROWING POLICY

6.1 The policy of the County Council for the financing of capital expenditure is set out in Treasury Management Practice Note 3 which supports the Treasury Management Policy Statement.

6.2 In practical terms the policy is to finance capital expenditure by borrowing from the Public Works Loan Board (for periods up to 50 years) or the money markets (for periods up to 70 years) whichever reflects the best possible value to the County Council. Individual loans are taken out over varying periods depending on the perceived relative value of interest rates at the time of borrowing need and the need to

avoid a distorted loan repayment profile. Individual loans are not linked to the cost of specific capital assets or their useful life span. Decisions to borrow are made in consultation with the County Council's Treasury Management Advisor (Link Asset Services).

- 6.3 In addition to the PWLB the County Council can borrow from the money market (principally banks and building societies) and this is usually effected via a LOBO (Lender Option, Borrower Option). Such loans feature an initial fixed interest period followed by a specified series of calls when the lender has the option to request an interest rate increase. The borrower then has the option of repaying the loan (at no penalty) or accepting the higher rate.
- 6.4 Borrowing from the money market for capital purposes is limited to 30% of the County Council's total external debt outstanding at any one point in time (per **Prudential Indicator 9**).
- 6.5 The County Council will always look to borrow from the PWLB and money markets at the most advantageous rate. The Corporate Director – Strategic Resources will monitor this situation closely throughout the year to determine whether at any stage, money market loans are more appropriate and advantageous to the County Council than PWLB loans.
- 6.6 At present all County Council long term borrowing is from the PWLB or via equally advantageous money market loans. However some short term money market borrowing may take place during the financial year in order to take advantage of low interest rates or to facilitate any debt restructuring exercise.
- 6.7 Depending on the relationship between short term variable interest rates and the fixed term PWLB or LOBO rates for longer periods, some capital expenditure may be financed by short term borrowing from either the County Council's revenue cash balances or outside sources.

Policy on borrowing in advance of need

- 6.8 The Prudential Code allows external 'borrowing for capital purposes' in advance of need within the constraints of relevant approved Prudential Indicators. Taking estimated capital borrowing requirements up to 31 March 2022 any time after 1 April 2019 is allowable under the Prudential Code. There are risks, however, in such borrowing in advance of need and the County Council has not taken any such borrowing to date and there are no current plans to do so. Furthermore the County Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.
- 6.9 Any decision to borrow in advance of need will only be considered where there is
 - a clear business case for doing so for the current Capital Plan;
 - to finance future debt maturity repayments;
 - value for money can be demonstrated; and

- the County Council can ensure the security of such funds which are subsequently invested.

6.10 Any future consideration of whether borrowing will be undertaken in advance of need the County Council will:

- ensure that there is a clear link between the Capital Plan and maturity of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance (until required to finance capital expenditure) on temporarily increasing investment cash balances and the consequent increase in exposure to counter party risk and other risks, and the level of such risks given the controls in place to minimise them.

7.0 PROSPECTS FOR INTEREST RATES

7.1 Whilst recognising the continuing volatility and turbulence in the financial markets, the following paragraphs present a pragmatic assessment of key economic factors as they are likely to impact on interest rates over the next three years.

7.2 In terms of the key economic background and forecasts, looking ahead the current position is as follows:

a) The UK Economy

- There has been a positive flow of economic statistics since the start of the year with a steady growth in GDP, although growth is expected to have weakened in the final quarter of the year.
- The MPC have repeatedly stated that future Bank Rate increases would be gradual and to a much lower steady rate (expected to be around 2.5%) than before the financial crash. However, with so much uncertainty around Brexit, the MPC have warned that the next move in Bank Rate could be up or down. Assuming that a timely Brexit deal is agreed and in view of the stance of the MPC at their November meeting, the next increase in Bank Rate is currently forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

- The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%). However, this inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget.
- The current forecasts are based on the assumption that there is no change in government and an orderly Brexit is achieved in March 2019 or sometime shortly after. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up,

b) Global Economy

Global Outlook

- World growth has been aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken. Inflation has been weak during 2018 but, falling unemployment in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

Central Bank Policy

- Nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, some economists have assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through measures such as quantitative easing (QE).
- It would now appear the global economy is transitioning from a period of stimulating economic recovery and addressing potential deflation to reversing the measures employed and addressing potential inflation. A key risk to the economy in this period will be the timing of central bank measures, such as the reversal of QE and raising of interest rates, in order to avoid shocks to market expectations that could destabilise financial markets.

European Union (EU)

Growth remained consistent in the Eurozone throughout 2018. In particular, data from Germany was been mixed, potentially impacted by US tariffs on manufacturing exports. Although growth is still expected to be in the region of nearly 2% for 2018, the forecast going forward is less clear with the European Central Bank ended QE purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may

not raise interest rates in 2019 if the growth rate of the EU economy is on a weakening trend.

USA

- The US fiscal policy is fuelling a, (temporary), boost in consumption, which has generated an upturn in strong growth. The strong growth in employment numbers and the reduction in the unemployment rate has seen an upturn in wage inflation. CPI inflation, however, fell overall in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued its series of increases in interest rates, although forecast for future increases is expected to be lower.

Asia

- Economic growth in China has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Moreover, Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will continue in the medium term to try to stimulate growth and modest inflation.

c) Link Asset Services Forward View

- Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions) are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.
- The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. As a result, the Fed has continued to address rising inflationary pressures by repeatedly

increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US bond yields rise during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

- Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
- From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.
- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively
- Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
 - Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth;
 - Bank of England monetary policy takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate;
 - a resurgence of the Eurozone sovereign debt crisis;
 - weak capitalisation of some European banks;
 - minority governments in a number of Eurozone countries;
 - further increases in interest rates in the US;
 - concerns around the level of US corporate ;and
 - geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
 - Brexit – if both sides were to agree a compromise that removed all threats of economic and political disruption;
 - the Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE;
 - the Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect; and
 - UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields

7.3 The County Council has appointed Link Asset Services as its treasury management advisor and part of their service is to assist in formulating a view on interest rates. By drawing together a number of current city forecasts for short term (Bank rate) and longer fixed interest rates a consensus view for bank rate, PWLB borrowing rates and short term investment rates is as follows:-

	Bank Rate	PWLB Borrowing Rates				Short Term	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	
Mar 2019	0.75	2.10	2.50	2.90	2.70	0.90	1.00
Jun 2019	1.00	2.20	2.60	3.00	2.80	1.00	1.20
Sep 2019	1.00	2.20	2.60	3.10	2.90	1.10	1.30
Dec 2019	1.00	2.00	2.70	3.10	2.90	1.20	1.40
Mar 2020	1.25	2.30	2.80	3.20	3.00	1.30	1.50
Jun 2020	1.25	2.40	2.90	3.30	3.10	1.40	1.60
Sep 2020	1.25	2.50	2.90	3.30	3.10	1.50	1.70
Dec 2020	1.50	2.50	3.00	3.40	3.20	1.50	1.70
Mar 2021	1.50	2.60	3.00	3.40	3.20	1.60	1.80
Jun 2021	1.75	2.60	3.10	3.50	3.30	1.70	1.90
Sep 2021	1.75	2.70	3.10	3.50	3.30	1.80	2.00
Dec 2021	1.75	2.80	3.20	3.60	3.40	1.90	2.10

7.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to remain relatively low during 2019/20 but to be on a gently rising trend over the next few years;
- The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed

to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue costloss – the difference between borrowing costs and investment returns.

8.0 **BORROWING STRATEGY 2019/20**

8.1 Based on the interest rate forecast, there is a range of potential options available for the Borrowing Strategy for 2019/20. Consideration will therefore be given to the following:

- a) the County Council is currently maintaining an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is currently prudent as investment returns are low and counterparty risk remains relatively high;
- b) based on analysis, the cheapest borrowing will be internal borrowing achieved by continuing to run down cash balances and foregoing interest earned at historically low rates . However in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;
- c) long term fixed market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio. The current market availability of such loans is, however, very limited and is not expected to change in the immediate future;
- d) PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which would spread debt maturities away from a concentration in longer dated debt. The downside of such shorter term borrowing is the loss of long term stability in interest payments that longer term fixed interest rate borrowing provides;
- e) consideration will be given to PWLB borrowing by annuity and Equal Instalments of Principal (EIP) in addition to maturity loans, which have been preferred in recent years;
- f) PWLB rates are expected to gradually increase throughout the financial year so it would therefore be advantageous to time any new borrowing earlier in the year;
- g) borrowing rates continue to be relatively attractive and may remain relatively low for some time, as a result, the timing of any borrowing will need to be monitored carefully. There will also remain a 'cost of borrowing' with any borrowing undertaken

that results in an increase in investments incurring a revenue loss between borrowing costs and investment returns:

- 8.2 Based on the PWLB forecasts, suitable trigger rates for considering new fixed rate PWLB or equivalent money market borrowing will be set. The aim, however, would be to secure loans at rates below these levels if available.
- 8.3 The forecast rates and trigger points for new borrowing will be continually reviewed in the light of movements in the slope of the yield curve, the spread between PWLB new borrowing and early repayment rates, and any other changes that the PWLB may introduce to their lending policy and operations.

External -v- internal borrowing

- 8.4 The County Council's net borrowing figures (external borrowing net of investments) are significantly below the authority's capital borrowing need (Capital Financing Requirement – CFR) because of two main reasons
 - a) a significant level of investments (cash balances – core cash plus cash flow generated)
 - b) internally funded capital expenditure.
- 8.5 Such internal borrowing stood at £15.4m at 31 March 2018, principally as a result of funding company loans from internal, rather than external borrowing, and not taking up any new debt since 2010/11 for the borrowing requirements. For 2017/18, this resulted in an ongoing MRP saving of £61k per annum over 25 years and a saving of £445k per annum based on a maturity rate of 2.89% over 25 years. The level of this internal capital borrowing depends on a range of factors including:
 - a) premature repayment of external debt;
 - b) the timing of any debt rescheduling exercises;
 - c) the timing of taking out annual borrowing requirements;
 - d) policy considerations on the relative impact of financing capital expenditure from cash balances compared with taking new external debt with the balance of external and internal borrowing being generally driven by market conditions.
- 8.6 The County Council continues to examine the potential for undertaking further early repayment of some external debt in order to reduce the difference between the gross and net debt position. However the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007 compounded by a considerable further widening of the difference between new borrowing and repayment rates in October 2010, has meant that large premiums would be incurred by such actions which could not be justified on value for money grounds. This situation will be monitored closely in case the differential is narrowed by the PWLB at some future dates.
- 8.7 This internal capital borrowing option is possible because of the County Council's cash balance with the daily average being £337.2m in 2017/18. This consisted of cash flow

generated (creditors etc), core cash (reserves, balances and provisions etc) and cash managed on behalf of other organisations. Consideration does therefore need to be given to the potential merits of internal borrowing.

- 8.8 As 2019/20 is expected to continue as a year of low bank interest rates, this extends the current opportunity for the County Council to continue with the current internal borrowing strategy.
- 8.9 Over the next three years investment rates are expected to be below long term borrowing rates. A value for money consideration would therefore indicate that value could be obtained by continuing avoiding/delaying some or all new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings but is not risk free.
- 8.10 The use of such internal borrowing, which runs down investments, also has the benefit of reducing exposure to low interest rates on investments, and the credit risk of counterparties.
- 8.11 In considering this option however, two significant risks to take into account are
- a) the implications of day to day cash flow constraints, and;
 - b) short term savings by avoiding/delaying new long external borrowing in 2019/20 must be weighed against the loss of longer term interest rate stability. There is the potential, however, for incurring long term extra costs by delaying unavoidable new external borrowing until later years by which time PWLB long term rates are forecast to be significantly higher.
- 8.12 Borrowing interest rates are on a rising trend. The policy of avoiding new borrowing by running down cash balances has served the County Council well in recent years. However this needs to be carefully reviewed and monitored to avoid incurring even higher borrowing costs which are now looming even closer for authorities who will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt in the near future.
- 8.13 The general strategy for this “Internal Capital Financing” option will therefore be to continue to actively consider and pursue this approach on an ongoing basis in order to reduce the difference between the gross and net debts levels together with achieving short term savings and mitigating the credit risk incurred by holding investments in the market. However this policy will be carefully reviewed and monitored on an on-going basis.

Overall Approach to Borrowing in 2019/20

- 8.14 Given the market conditions, economic background and interest rate forecasts, caution will be paramount within the County Council’s 2019/20 Treasury Management operations. The Corporate Director – Strategic Resources will monitor the interest rates closely and adopt a pragmatic approach to changing circumstances – any key strategic decision that deviates from the Borrowing Strategy outlined above will be reported to the Executive at the next available opportunity.

Sensitivity of the Strategy

8.15 The main sensitivities of the Strategy are likely to be the two scenarios below. The Corporate Director – Strategic Resources will, in conjunction with the County Council's Treasury Management Advisor, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:

- a) *if it is felt that there was a significant risk of a sharp fall in both long and short term rates, (e.g. due to a marked increase of risks around the relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered;*
- b) *if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast (perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks), then the portfolio position will be re-appraised with the likely action that fixed rate funding will be taken whilst interest rates are still lower than they will be in the next few years.*

9.0 CAPPING OF CAPITAL FINANCING COSTS

9.1 In order to regulate the impact of Prudential Borrowing on the net revenue budget, Members approved a local policy to cap capital financing charges as a proportion of the annual Net Revenue Budget. This cap was set at 10% in 2019/20 which accommodates existing Capital Plan requirements and will act as a regulator if Members are considering expanding the Capital Plan using Prudential Borrowing. Members do have the option to review the cap in the context of its explicit impact on the Revenue Budget/Medium Term Financial Strategy.

10.0 REVIEW OF LONG TERM DEBT AND DEBT RESCHEDULING

10.1 The long term debt of the County Council is under continuous review.

10.2 The rescheduling of debt involves the early repayment of existing debt and its replacement with new borrowing. This can result in one-off costs or benefits called, respectively, premiums and discounts. These occur where the rate of the loan repaid varies from comparative current rates. Where the interest rate of the loan to be repaid is higher than the current rates, a premium is charged by the PWLB for repayment. Where the interest rate of the loan to be repaid is lower than the current rate, a discount on repayment is paid by the PWLB.

10.3 Discussions with the County Council's Treasury Management Advisor about the long term financing strategy are ongoing and any debt rescheduling opportunity will be fully explored.

10.4 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded in October 2010 by a

considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration has to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

10.5 As short term borrowing rates are expected to be considerably cheaper than longer term rates throughout 2019/20, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred), their short term nature and the likely costs of refinancing those short term loans once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

10.6 Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in light of the debt repayment premiums.

10.7 The reasons for undertaking any rescheduling will include:

- a) the generation of cash savings at minimum risk;
- b) in order to help fulfil the Borrowing Strategy, and;
- c) in order to enhance the balance of the long term portfolio (ie amend the maturity profile and/or the balance of volatility).

11.0 MINIMUM REVENUE PROVISION (MRP) POLICY 2019/20

11.1 Local authorities are statutorily required to pay off an element of accumulated capital expenditure funded from borrowing (Capital Financing Requirement – CFR) through a charge to the Revenue Account (the Minimum Revenue Provision – MRP).

11.2 MHCLG Guidance (revised in 2018) requires the County Council to approve an MRP Policy Statement in advance of each year. The MRP guidance offers a range of options, with an overriding recommendation that there should be prudent provision.

11.3 A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £15m.

11.4 The County Council's MRP policy is based on the Government's Statutory Guidance. However, a further review of the existing assumptions for prudent provision incorporated into the County Council's MRP Policy will be undertaken as part of the 2019/20 budget review and any changes will be reported to Members as part of an in-

year update of this Annual Treasury Management Strategy. Until that time, the policy for 2019/20 remains as follows:-

- a) for all **capital expenditure incurred before 1 April 2008**, MRP will be based on 4% of the Capital Financing Requirement (CFR) at that date;
- b) for **capital expenditure incurred after 1 April 2008 which is supported by Government Borrowing approvals**, MRP to be based on 4% of such sums as reflected in subsequent CFR updates;
- c) for **locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008**, MRP will be calculated using the asset life method based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken:
- d) In view of the variety of different types of capital expenditure incurred by the County Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure, and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 25 years for buildings, 50 years for land, and 5 to 7 years for vehicles, plant and equipment. To the extent that the expenditure does not create a physical asset (eg capital grants and loans), and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the County Council.

In the case of long term debtors from loans, the amounts paid out are classed as capital expenditure for capital financing purposes. The expenditure is therefore included in the calculation of the County Council's Capital Financing Requirement. When the County Council receives the repayment of an amount loaned, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the eventual receipt is expected to fall short of the amount expended).

Where expenditure is incurred to acquire and/or develop properties for resale, the Capital Financing Requirement will increase by the amount expended. Where the County Council will subsequently recoup the amount expended via the sale of an asset, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

Where expenditure is incurred to acquire properties meeting the accounting definition of investment properties, the Capital Financing Requirement will increase by the amount expended. Where the Council will subsequently recoup the amount expended (e.g. via the sale of an asset), the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing

Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

This approach also allows the County Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

- e) for “**on balance sheet**” **PFI schemes**, MRP will be equivalent to the “capital repayment element” of the annual service charge payable to the PFI Operator and for **finance leases**, MRP will be equivalent to the annual rental payable under the lease agreement.

11.5 Therefore the County Council’s total MRP provision will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2019/20 will be about £11.9m (including PFI and finance leases).

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 The County Council’s Investment Strategy has regard to the following :-

- MHCLG’s Guidance on Local Government Investments (the Guidance)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (the Code)
- CIPFA Treasury Management Guidance Notes 2018

12.2 This Annual Investment Strategy must define the investments the County Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non specified investments**.

12.3 This Annual Investment Strategy therefore sets out

- revisions to the Annual Investment Strategy;
- the Investment Policy;
- the policy regarding loans to companies in which the County Council has an interest;
- specified and non specified investments;
- Creditworthiness Policy - security of capital and the use of credit ratings;
- the Investment Strategy to be followed for 2019/20;

- investment reports to members;
- investment of money borrowed in advance of need;
- investment (and Treasury Management) training;

Revisions to the Annual Investment Strategy

12.4 In addition to this updated **Investment Strategy**, which requires approval before the start of the financial year, a revised Strategy will be submitted to County Council for consideration and approval under the following circumstances:

- a) significant changes in the risk assessment of a significant proportion of the County Council's investments;
- b) any other significant development(s) that might impact on the County Council's investments and the existing strategy for managing those investments during 2019/20.

Investment Policy

12.5 The parameters of the Policy are as follows:

- a) the County Council will have regard to the Government's Guidance on Local Government Investments as revised with effect February 2018, and the 2018 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes;
- b) the County Council's investment policy has two fundamental objectives;
 - the security of capital (protecting the capital sum from loss); and then
 - the liquidity of its investments (keeping the money readily available for expenditure when needed)
- c) the County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments;
- d) the County Council will not borrow more than or in advance of its need purely in order to profit from the investment of extra sums borrowed;
- e) investment instruments for use in the financial year listed under **specified** and **non-specified investment** categories; and
- f) counterparty limits will be set through the County Council's Treasury Management Practices Schedules.

Specified and non-specified Investments

12.6 Based on Government Guidance as updated from February 2018.

- a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **specified** and **non-specified** Investment categories;
- b) all **specified** Investments (see **Schedule A**) are defined by the Government as options with “relatively high security and high liquidity” requiring minimal reference in investment strategies. In this context, the County Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;
- c) **Non-specified** investments (see **Schedule B**) attract a greater potential of risk. As a result, a maximum local limit of 20% of “core cash” funds, currently based on Reserves of approximately £200m, available for investment has been set which can be held in aggregate in such investments;
- d) for both **specified** and **non-specified** investments, the attached Schedules indicate for each type of investment:-
 - the investment category
 - minimum credit criteria
 - circumstances of use
 - why use the investment and associated risks
 - maximum % age of total investments
 - maximum maturity period

} (Non-Specified only)
- e) there are other instruments available as Specified and Non-Specified investments that are not currently included. Examples of such investments are:-

Specified Investments	- Commercial Paper - Gilt funds and other Bond Funds - Treasury Bills
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Non-Specified Investments	- Sovereign Bond issues - Corporate Bonds - Floating Rate notes - Equities - Open Ended Investment Companies - Derivatives
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A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy. Under existing scrutiny

arrangements, the County Council's Audit Committee will also look at any proposals to use the instruments referred to above.

Creditworthiness Policy – Security of Capital and the use of credit ratings

- 12.7 The financial markets have experienced a period of considerable turmoil since 2008 and as a result attention has been focused on credit standings of counterparties with whom the County Council can invest funds.

It is paramount that the County Council's money is managed in a way that balances risk with return, but with the overriding consideration being given to the security of the invested capital sum followed by the liquidity of the investment. The Approved Lending List will therefore reflect a prudent attitude towards organisations with whom funds may be deposited.

The rationale and purpose of distinguishing specified and non-specified investments is detailed above. Part of the definition for a Specified investment is that it is an investment made with a body which has been awarded a high credit rating with maturities of no longer than 365 days.

It is, therefore, necessary to define what the County Council considers to be a "high" credit rating in order to maintain the security of the invested capital sum.

The methodology and its application in practice will, therefore, be as follows:-

- a) the County Council will rely on credit ratings published by the three credit rating agencies (Fitch, Moody's and Standard & Poor's) to establish the credit quality (ability to meet financial commitments) of counterparties (to whom the County Council lends) and investment schemes. Each agency has its own credit rating components to complete their rating assessments. These are as follows:

Fitch Ratings

- | | |
|------------|---|
| Long Term | - generally cover maturities of over five years and acts as a measure of the capacity to service and repay debt obligations punctually. Ratings range from AAA (highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations) |
| Short Term | - cover obligations which have an original maturity not exceeding one year and place greater emphasis on the liquidity necessary to meet financial commitments. The ratings range from F1+ (the highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations) |

Moody's Ratings

- | | |
|-----------|--|
| Long Term | - an opinion of the relative credit risk of obligations with an original maturity of one year or more. They reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Ratings range from Aaa (highest quality, with minimal credit |
|-----------|--|

risk) to C (typically in default, with little prospect for recovery of principal or interest)

Short Term - an opinion of the likelihood of a default on contractually promised payments with an original maturity of 13 months or less. Ratings range from P-1 (a superior ability to repay short-term debt obligations) to P-3 (an acceptable ability to repay short-term obligations)

Standard & Poor's Ratings

Long Term - considers the likelihood of payment. Ratings range from AAA (best quality borrowers, reliable and stable) to D (has defaulted on obligations)

Short Term - generally assigned to those obligations considered short-term in the relevant market. Ratings range from A-1 (capacity to meet financial commitment is strong) to D (used upon the filing of a bankruptcy petition).

In addition, all three credit rating agencies produce a Sovereign Rating to select counterparties from only the most creditworthy countries. The ratings are the same as those used to measure long term credit.

- b) the County Council will review the “ratings watch” and “outlook” notices issued by all three credit rating agencies referred to above. An agency will issue a “watch”, (notification of likely change), or “outlook”, (notification of a possible longer term change), when it anticipates that a change to a credit rating may occur in the forthcoming 6 to 24 months. The “watch” or “outlook” could reflect either a positive (increase in credit rating), negative (decrease in credit rating) or developing (uncertain whether a rating may go up or down) outcome;
- c) no combination of ratings can be viewed as entirely fail safe and all credit ratings, watches and outlooks are monitored on a daily basis. This is achieved through the use of Link Asset Services creditworthiness service. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of counterparties are then supplemented with the following overlays;
 - credit watches and credit outlooks from credit rating agencies
 - CDS spreads to give early warning of likely changes in credit ratings
 - sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are

used by the County Council to determine the duration for investments. The County Council will therefore use counterparties within the following durational bands:-

Colour	Maximum Investment Duration
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 Months
Green	100 Days
No Colour	No investment to be made

- d) given that a number of central banks/government have supported or are still supporting their banking industries in some way, the importance of the credit strength of the sovereign has become more important. The County Council will therefore also take into account the Sovereign Rating for the country in which an organisation is domiciled, for countries other than the UK (use of UK banks will not be limited). As a result, only an institution which is domiciled in a country with a minimum Sovereign Rating of AA- from Fitch or equivalent would be considered for inclusion on the County Council's Approved Lending List (subject to them meeting the criteria above). Organisations which are domiciled in a Country whose Sovereign Rating has fallen below the minimum criteria will be suspended, regardless of their own individual score/colour. The list of countries that currently qualify using this credit criteria are shown in **Schedule D**. This list will be amended should ratings change, in accordance with this policy;
- e) in order to reflect current market sentiment regarding the credit worthiness of an institution the County Council will also take into account current trends within the Credit Default Swap (CDS) Market. Since they are a traded instrument they reflect the market's current perception of an institution's credit quality, unlike credit ratings, which often focus on a longer term view. These trends will be monitored through the use of Link Asset Services creditworthiness service which compares the CDS Market position for each institution to the benchmark CDS Index. Should the deviation be great, then market sentiment suggests that there is a fear that an institution's credit quality will fall. Organisations with such deviations will be monitored and their standing reduced by one colour band as a precaution. Where the deviation is great, the organisation will be awarded 'no colour' until market sentiment improves. Where entities do not have an actively traded CDS spread, credit ratings are used in isolation;
- f) fully and part nationalised banks within the UK currently have credit ratings which are not as high as other institutions. This is the result of the banks having to have to accept external support from the UK Government However, due to this Central Government involvement, these institutions now effectively take on the credit worthiness of the Government itself (i.e. deposits made with them are effectively being made to the Government). This position is expected to take a number of

years to unwind and would certainly not be done so without a considerable notice period. As a result, institutions which are significantly or fully owned by the UK Government will be assessed to have a high level of credit worthiness;

- g) the largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as ring fencing. Ring fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve resilience. In general, simpler activities offered from a ring fenced bank will be focused on lower risk, day to day core transactions, whilst the more complex, and “riskier” activities are carried out by the non ring fenced bank.
- h) all of the above will be monitored on a weekly basis through Link Asset Services creditworthiness service with additional information being received and monitored on a daily basis should credit ratings change and/or watch/outlook notices be issued. Sole reliance will not be placed on the information provided by Link Asset Services however. In addition the County Council will also use market data and information available from other sources such as the financial press and other agencies and organisations;
- i) in addition, the County Council will set maximum investment limits for each organisation which also reflect that institution’s credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity). These limits are as follows:-

Maximum Investment Limit	Criteria
£75m	UK "Nationalised / Part Nationalised" banks / UK banks with UK Central Government involvement
£20m to £60m	UK "Clearing Banks" and selected UK based Banks and Building Societies
£20m or £40m	High quality foreign banks

- j) should a score/colour awarded to a counterparty or investment scheme be amended during the year due to rating changes, market sentiment etc., the County Council will take the following action:-
- reduce or increase the maximum investment term for an organisation dependent on the revised score / colour awarded
 - temporarily suspend the organisation from the Approved Lending List should their score fall outside boundary limits and not be awarded a colour
 - seek to withdraw an investment as soon as possible, within the terms and conditions of the investment made, should an organisation be suspended from the Approved Lending List

- ensure all investments remain as liquid as possible, i.e. on instant access until sentiment improves.
- k) if a counterparty / investment scheme, not currently included on the Approved Lending List is subsequently upgraded, (resulting in a score which would fulfil the County Council's minimum criteria), the Corporate Director – Strategic Resources has the delegated authority to include it on the County Council's Approved Lending List with immediate effect;
- l) a copy of the current Approved Lending List, showing maximum investment and time limits is attached at **Schedule C**. The Approved Lending List will be monitored on an ongoing daily basis and changes made as appropriate. Given current market conditions, there continues to be a very limited number of organisations which fulfil the criteria for non specified investments. This situation will be monitored on an ongoing basis with additional organisations added as appropriate with the approval of the Corporate Director – Strategic Resources.

The Investment Strategy to be followed for 2019/20

12.8 Recognising the categories of investment available and the rating criteria detailed above

- a) the County Council currently manages all its cash balances internally;
- b) ongoing discussions are held with the County Council's Treasury Management Advisor on whether to consider the appointment of an external fund manager(s) or continue investing in-house – any decision to appoint an external fund manager will be subject to Member approval;
- c) the County Council's cash balances consist of two basic elements. The first element is **cash flow derived** (debtors/creditors/timing of income compared to expenditure profile). The second, **core element**, relates to specific funds (reserves, provisions, balances, capital receipts, funds held on behalf of other organisations etc.);
- d) having given due consideration to the County Council's estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £40m of the overall balances can be prudently committed to longer term investments (e.g. between 1 and 10 years);
- e) investments will accordingly be made with reference to this core element and the County Council's ongoing cash flow requirements (which may change over time) and the outlook for short term interest rates (i.e. rates for investments up to 12 months);
- f) the County Council currently two non-specified investment over 365 days, and investments within two Property Funds;

- g) bank rate increased to 0.75% in August and underpins investment returns. Investment returns are expected to rise gently over the next 3 years;
- h) The County Council will, therefore, avoid locking into long term deals while investment rates continue to be at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a 'low risk' parameter. No trigger rates will be set for longer term deposits (two or three years) but this position will be kept under constant review and discussed with the Treasury Management Advisor on a regular basis.
- i) for its cash flow generated balances the County Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15, 30 and 100 day accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Reports to Members

12.9 Reporting to Members on investment matters will be as follows:

- a) in-year investment reports will be submitted to the Executive as part of the Quarterly Performance and Budget Monitoring reports;
- b) at the end of the financial year a comprehensive report on the County Council's investment activity will be submitted to the Executive as part of the Annual Treasury Management Outturn report;
- c) periodic meetings between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee provide an opportunity to consider and discuss issues arising from the day to day management of Treasury Management activities.

Investment of Money Borrowed in Advance of Need

12.10 The Borrowing Policy covers the County Council's policy on Borrowing in Advance of Spending Needs.

Although the County Council has not borrowed in advance of need to date and has no current plans to do so in the immediate future, any such future borrowing would impact on investment levels for the period between borrowing and capital spending.

Any such investments would, therefore, be made within the constraints of the County Council's current Annual Investment Strategy, together with a maximum investment period related to when expenditure was expected to be incurred.

Treasury Management Training

12.11 The training needs of the County Council's staff involved in investment management are monitored, reviewed and addressed on an on-going basis and are discussed as part of the staff appraisal process. In practice most training needs are addressed through attendance at courses and seminars provided by CIPFA, the LGA and others on a regular ongoing basis.

The CIPFA Code also requires that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (i.e. the Audit Committee). Training for Members and officers will be provided as required. The training arrangements for officers will also be available to Members.

13.0 OTHER TREASURY MANAGEMENT ISSUES

Policy on the use of External Treasury Management Service Providers

- 13.1 The County Council uses Link Asset Services as its external treasury management adviser. Link provide a source of contemporary information, advice and assistance over a wide range of Treasury Management areas but particularly in relation to investments and debt administration.
- 13.2 Whilst the County Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, it fully accepts that responsibility for Treasury Management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon advice of the external service provider.
- 13.3 Following a quotation exercise, Link Asset Services were appointed in September 2015 as a single provider of Treasury Management consultancy services for the County Council, North Yorkshire Fire and Rescue Authority and Selby District Council. The appointment was for an original three year period and has now been extended for a further two years as per the contract option. The value and quality of services being provided are monitored and reviewed on an ongoing basis.

The scheme of delegation and role of the section 151 officer in relation to Treasury Management

- 13.4 The Government's Investment Guidance requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer in the Annual Treasury Management/Investment Strategy.
- 13.5 The key elements of delegation in relation to Treasury Management are set out in the following Financial Procedure Rules (FPR):-
- a) **14.1** The Council adopts CIPFA's "Treasury Management in the Public Services Code of Practice 2011" (as amended) as described in Section 5 of the Code, and will have regard to the associated guidance notes;
 - b) **14.2** The County Council will create and maintain as the cornerstone for effective Treasury Management
 - i. a strategic Treasury Management Policy Statement (TMPS) stating the County Council's policies, objectives and approach to risk management of its treasury management activities;

- ii. a framework of suitable Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;
- c) **14.3** The Executive and the full Council will receive reports on its Treasury Management policies, practices and activities including, as a minimum an Annual Treasury Management and Investment Strategy and associated report on Prudential Indicators in advance of the financial year;
- d) **14.4** The County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive, and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources (CD-SR), who will act in accordance with the Council’s TMPs, as well as CIPFA’s Standard of Professional Practice on Treasury Management;
- e) **14.5** The Executive will receive from the CD-SR a quarterly report on Treasury Management as part of the Quarterly Performance Monitoring report and an annual report on both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year;
- f) **14.6** The CD-SR will meet periodically with the portfolio holder for financial services, including assets, IT and procurement and such other Member of the Executive as the Executive shall decide to consider issues arising from the day to day Treasury Management activities;
- g) **14.7** The Audit Committee shall be responsible for ensuring effective scrutiny of the Treasury Management process;
- h) **14.8** The CD-SR shall periodically review the Treasury Management Policy Statement and associated documentation and report to the Executive on any necessary changes, and the Executive shall make recommendations accordingly to the County Council;
- i) **14.9** All money in the possession of the Council shall be under the control of the officer designated for the purposes of Section 151 of the Local Government Act 1972 (i.e. the Corporate Director - Strategic Resources).

13.6 In terms of the Treasury Management role of the Section 151 officer (the Corporate Director – Strategic Resources), the key areas of delegated responsibility are as follows :-

- recommending clauses, treasury management policies and practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports to Members;
- submitting budgets and budget variations to Members;
- receiving and reviewing management information reports;

- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers:
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed,
- Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to

non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Other Issues

13.7 The County Council continues to monitor potential PFI opportunities and assess other innovative methods of funding and the Corporate Director – Strategic Resources will report any developments to Executive at the first opportunity.

14.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

14.1 Taking into account the matters referred to in this Strategy, the monitoring and reporting arrangements in place relating to Treasury Management activities are now as follows:

- a) an annual (i.e. this) report to Executive and County Council as part of the Budget process that sets out the County Council's **Treasury Management Strategy, Prudential Indicators and Capital Strategy** for the forthcoming financial year;
- b) a mid year update of these Indicators as part of the Q1 Performance Monitoring report submitted to the Executive
- c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year
- d) a quarterly report on Treasury Matters to Executive as part of the **Quarterly Performance and Budget Monitoring** report;
- e) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;
- f) copies of the reports mentioned in (a) to (d) above are provided to the **Audit Committee** who are also consulted on any proposed changes to the County Council's Treasury Management activities.

GARY FIELDING
Corporate Director – Strategic Resources

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2019/20 – SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year	Organisations assessed as having “high credit quality” plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		Fund Manager or In-house “buy and hold” after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Term Deposits with Housing Associations less than 1 year		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (<i>These funds have no maturity date</i>)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (<i>Custodial arrangements required prior to purchase</i>)	Government Backed	After consultation with Treasury Management Advisor

SCHEDULE B

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2019/20 – NON-SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
<p>Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year</p>	<p>Organisations assessed as having “high credit quality” under the Credit Worthiness Policy</p>	<p>In-house</p>	<p>100% of agreed maximum proportion of Core Cash funds (£40m)</p>	<p>£5m</p>	<p>5 years</p>
<p>Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year Custodial arrangements prior to purchase</p>	<p>Organisations assessed as having “high credit quality” under the Credit Worthiness Policy</p>	<p>Fund Manager or In-house “buy & hold” after consultation with Treasury Management Advisor</p>	<p>100% of agreed maximum proportion of Core Cash funds (£40m)</p>	<p>£5m</p>	<p>5 years</p>
<p>Callable Deposits with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year</p>	<p>Organisations assessed as having “high credit quality” under the Credit Worthiness Policy</p>	<p>In-house</p>	<p>50% of agreed maximum proportion of Core Cash funds (£20m)</p>	<p>£5m</p>	<p>5 years</p>

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
Term Deposits with Housing Associations with maturities greater than 1 year	Organisations assessed as having “high credit quality” under the Credit Worthiness Policy	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	Organisations assessed as having “high credit quality” under the Credit Worthiness Policy	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	AA or Government backed	Fund Manager or In-house “buy & hold” after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	AA or Government backed	Fund Manager or In-house “buy & hold” after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
<p>UK Government Gilts with maturities in excess of 1 year</p> <p>Custodial arrangements required prior to purchase</p>	Government backed	Fund Manager	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Collateralised Deposit	UK Sovereign Rating	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Property Funds	Organisations assessed as having “high credit quality”	In-house after consultation with Treasury Management Advisor	100% of agreed maximum proportion of Core Cash funds (£40m)	£5m	10 years

APPROVED LENDING LIST 2019/20

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £20m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	75.0	364 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	60.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	75.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	60.0	364 days	-	-
Lloyds Bank PLC (RFB)	GBR		6 months		
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
HSBC Bank PLC (NRFB)	GBR	30.0	364 days	-	-
HSBC UK Bank PLC (RFB)	GBR				
Goldman Sachs International Bank	GBR	60.0	6 months		
Sumitomo Mitsui	GBR	30.0	6 months		
Standard Chartered Bank	GBR	60.0	6 months		
Handelsbanken	GBR	40.0	364 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0	364 days	-	-
Commonwealth Bank of Australia	AUS	30.0	364 days		
Toronto-Dominion Bank	CAN	30.0	364 days		
Credit Industriel et Commercial	FRA	30.0	6 months	-	-
Landesbank Hessen-Thuringen Girozentrale (Helaba)	GER	30.0	364 days		
DBS (Singapore)	SING	30.0	364 days		
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	5 years
Police / Fire Authorities		20.0	364 days	5.0	5 years
National Park Authorities		20.0	364 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	5 years
Property Funds		5.0	364 days	5.0	10 years
Housing Associations		20.0	364 days	5.0	5 years
UK Debt Management Account		100.0	364 days	5.0	5 years

* Based on data as 31 December 2018

APPROVED COUNTRIES FOR INVESTMENTS

Based on the lowest available rating

Sovereign Rating	Country
AAA	Australia Canada Denmark Germany Luxemburg Netherlands Norway Singapore Sweden Switzerland
AA+	Finland USA
AA	Abu Dhabi (UAE) France Hong Kong UK
AA-	Belgium Qatar

PRUDENTIAL INDICATORS UPDATE – FOR 2019 TO 2021/22

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS	Comment																																																																				
<p>1 Estimated Ratio of capital financing costs to the net Revenue Budget</p> <p>(a) <i>Formally required Indicator</i></p> <p>This reflects capital financing costs (principal plus interest) on external debt plus PFI and finance leasing charges less interest earned on the temporary investment of cash balances.</p> <p>The estimated ratios of financing costs to the net Revenue Budget for the current and future years, and the actual figure for 2017/18 are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="2">Executive August 2018</th> <th colspan="2">Update January 2019</th> </tr> <tr> <th>Basis</th> <th>%</th> <th>Basis</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>2017/18</td> <td>actual</td> <td>8.1</td> <td>actual</td> <td>8.0</td> </tr> <tr> <td>2018/19</td> <td>probable</td> <td>9.1</td> <td>probable</td> <td>9.0</td> </tr> <tr> <td>2019/20</td> <td>estimate</td> <td>8.6</td> <td>estimate</td> <td>8.6</td> </tr> <tr> <td>2020/21</td> <td>estimate</td> <td>7.2</td> <td>estimate</td> <td>8.0</td> </tr> <tr> <td>2021/22</td> <td>estimate</td> <td>-</td> <td>estimate</td> <td>7.4</td> </tr> </tbody> </table> <p>(b) <i>Local Indicator</i></p> <p>This local Indicator reflects a policy decision to cap Capital Financing costs at 10% of the net annual Revenue Budget. The Indicator is different to the formally required Indicator at (a) above in that it only reflects the cost components of interest on external debt plus lost interest on internally financed capital expenditure, together with a revenue provision for debt repayment. Unlike the formally required PI it does not reflect interest earned on surplus cash balances or PFI / finance leasing charges.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="2">Executive August 2018</th> <th colspan="2">Update January 2019</th> </tr> <tr> <th>Basis</th> <th>%</th> <th>Basis</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>2017/18</td> <td>actual</td> <td>7.2</td> <td>actual</td> <td>7.2</td> </tr> <tr> <td>2018/19</td> <td>probable</td> <td>6.8</td> <td>probable</td> <td>6.8</td> </tr> <tr> <td>2019/20</td> <td>estimate</td> <td>6.5</td> <td>estimate</td> <td>6.6</td> </tr> <tr> <td>2020/21</td> <td>estimate</td> <td>5.2</td> <td>estimate</td> <td>6.1</td> </tr> <tr> <td>2021/22</td> <td>estimate</td> <td>-</td> <td>estimate</td> <td>5.7</td> </tr> </tbody> </table>	Year	Executive August 2018		Update January 2019		Basis	%	Basis	%	2017/18	actual	8.1	actual	8.0	2018/19	probable	9.1	probable	9.0	2019/20	estimate	8.6	estimate	8.6	2020/21	estimate	7.2	estimate	8.0	2021/22	estimate	-	estimate	7.4	Year	Executive August 2018		Update January 2019		Basis	%	Basis	%	2017/18	actual	7.2	actual	7.2	2018/19	probable	6.8	probable	6.8	2019/20	estimate	6.5	estimate	6.6	2020/21	estimate	5.2	estimate	6.1	2021/22	estimate	-	estimate	5.7	<p>The estimates of financing costs include current Capital Plan commitments based on the latest 2018/19 Q3 Capital Plan.</p> <p>The updated estimates for 2018/19 to 2021/22 reflect the net effect of a range of factors, principally</p> <ul style="list-style-type: none"> (a) savings being achieved through the ongoing policy of financing capital borrowing requirements internally from cash balances (b) variations in the level of annual borrowing requirements resulting from a range of factors, but principally capital expenditure slippage between years (c) variations in borrowing costs (interest plus a revenue provision for debt repayment) reflecting latest interest rate forecasts to 2021/22 (d) variations in interest earned on cash balances resulting from continuing current historically low interest rates but offset by continuing higher levels of cash balances (formal Indicator only).
Year		Executive August 2018		Update January 2019																																																																	
	Basis	%	Basis	%																																																																	
2017/18	actual	8.1	actual	8.0																																																																	
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2021/22	estimate	-	estimate	5.7																																																																	

Prudential Indicator	Comment																																		
<p>2 Capital Expenditure - Actual and Forecasts</p> <p>The actual capital expenditure that was incurred in 2017/18 and the latest estimates of capital expenditure to be incurred for the current and future years are:</p> <table border="1" data-bbox="208 470 1126 691"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="2">Executive August 2018</th> <th colspan="2">Update January 2019</th> </tr> <tr> <th>Basis</th> <th>£m</th> <th>Basis</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>2017/18</td> <td>actual</td> <td>103.5</td> <td>actual</td> <td>103.5</td> </tr> <tr> <td>2018/19</td> <td>probable</td> <td>155.8</td> <td>probable</td> <td>132.8</td> </tr> <tr> <td>2019/20</td> <td>estimate</td> <td>88.4</td> <td>estimate</td> <td>137.6</td> </tr> <tr> <td>2020/21</td> <td>estimate</td> <td>87.2</td> <td>estimate</td> <td>92.6</td> </tr> <tr> <td>2021/22</td> <td>estimate</td> <td>-</td> <td>estimate</td> <td>21.8</td> </tr> </tbody> </table> <p>The above figures reflect the updated Capital Plan (Q1 2018/19) together with:-</p> <ul style="list-style-type: none"> (i) expenditure on fixed assets funded directly from the Revenue Budget and not included in the Capital Plan. (ii) an estimated allowance for future expenditure re-phasing between years. 	Year	Executive August 2018		Update January 2019		Basis	£m	Basis	£m	2017/18	actual	103.5	actual	103.5	2018/19	probable	155.8	probable	132.8	2019/20	estimate	88.4	estimate	137.6	2020/21	estimate	87.2	estimate	92.6	2021/22	estimate	-	estimate	21.8	<p>This Indicator now reflects the Capital Outturn in 2017/18 and the Capital Plan update for Q3 2018/19.</p> <p>The variations are principally a result of:-</p> <ul style="list-style-type: none"> (a) additional provisions and variations to existing provisions which are self-funded from Capital Grants and Contributions, revenue contribution and earmarked capital receipts (b) Capital expenditure re-phasing between years including slippage from 2017/18 outturn and Q3 2018/19 to later years (c) various other Capital approvals and refinements reflected in the latest Capital Plan update
Year		Executive August 2018		Update January 2019																															
	Basis	£m	Basis	£m																															
2017/18	actual	103.5	actual	103.5																															
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2020/21	estimate	87.2	estimate	92.6																															
2021/22	estimate	-	estimate	21.8																															

Prudential Indicator									Comment
3 Capital Financing Requirement (CFR)									
Actuals and estimates of the Capital Financing Requirement (CFR) at the defined year ends are as follows:									
		Executive August 2018			Update January 2019				<p>The January 2019 figures were based on a Capital Plan approved as at 31 December 2018.</p> <p>The updated figures reflect the following variations figures</p> <p>(a) re-phasing between years of expenditure that is funded from borrowing including slippage between years identified at 2017/18 outturn and Q3 2018/19</p> <p>(b) capital receipts (including company loans) slippage between years that affect year on year borrowing requirements</p> <p>(c) variations in the level of the Corporate Capital Pot which is used in lieu of new borrowing until the Pot is required</p> <p>(d) additions and variations to schemes/provisions approved that are funded from Prudential Borrowing</p> <p>(e) variations in the annual Minimum Revenue Provision for debt Repayment which arise from the above</p> <p>(f) Other Long Term Liabilities now include the Allerton Waste Recovery Park PFI Scheme</p>
Date	Basis	Borrowing	Other Long Term liabilities (PFI etc)	Total	Basis	Borrowing	Other Long Term liabilities (PFI etc)	Total	
		£m	£m	£m		£m	£m	£m	
31 Mar 18	actual	302.9	160.4	463.4	actual	302.9	160.4	463.4	
31 Mar 19	probable	294.0	159.3	453.3	probable	309.9	159.3	469.2	
31 Mar 20	estimate	281.9	157.8	439.7	estimate	298.0	157.8	455.8	
31 Mar 21	estimate	270.8	156.1	427.0	estimate	280.3	156.1	436.4	
31 Mar 22	estimate	-	-	-	estimate	275.6	154.3	429.9	
<p>The CFR measures the underlying need for the County Council to borrow for capital purposes. In accordance with best professional practice, the County Council does not earmark borrowing to specific items or types of expenditure. The County Council has an integrated treasury management approach and has adopted the CIPFA Code of Practice for Treasury Management. The County Council has, at any point in time, a number of cashflows, both positive and negative, and manages its treasury position in terms of its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy. In day to day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the County Council as a whole and not simply those arising from capital spending. In contrast, the CFR Indicator reflects the County Council's underlying need to borrow for capital purposes only.</p>									

Prudential Indicator	Comment
<p>4 Gross Debt and the Capital Financing Requirement</p> <p>The Prudential Code emphasises that in order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the previous year (2018/19), plus the estimate of any additional capital financing requirement for the current (2019/20) and next two financial years (2020/21 and 2021/22). If, in any of these years, there is a reduction in the capital financing requirement, this reduction should be ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.</p> <p>This Prudential Indicator is referred to as gross debt and the comparison with the capital financing requirement (Indicator 3) and is a key indicator of prudence.</p> <p>The Corporate Director – Strategic Resources reports that the County Council had no difficulty in meeting this requirement up to 2018/19 nor are any difficulties envisaged for the current or future years of the Medium Term Financial Strategy up to 2021/22. For subsequent years, however, there is potential that the County Council may not be able to comply with the new requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely. This opinion takes into account spending commitments, existing and proposed Capital Plans and the proposals in the Revenue Budget 2019/20 and Medium Term Financial Strategy report.</p>	<p>This Prudential Indicator was changed in 2013/14 to reflect the comparison of gross debt (external debt plus other long term liabilities) with the Capital Financing Requirement (CFR). The comparator debt figure had previously been net debt which was gross debt less investments.</p> <p>The Prudential Code requires that where there is a significant difference between the gross debt and the gross borrowing requirement, as demonstrated by the CFR, then the risks and benefits associated with this strategy should be clearly stated in the annual Treasury Management Strategy.</p> <p>The County Council's gross debt figure is currently significantly below the CFR figures shown in Indicator 3 because of annual capital borrowing requirements being funded internally from cash balances (i.e. running down investments) rather than taking out new external debt.</p> <p>This situation, however, could be reversed in future as a result of two key factors:</p> <ul style="list-style-type: none"> (i) externalising some or all of the internally financed CFR together with (ii) the potential for the annual Minimum Revenue Provision (MRP) for debt repayment reducing the CFR below gross debt because the debt cannot readily be prematurely repaid without incurring significant penalties (premiums). <p>This potential situation will be monitored carefully by the Corporate Director – Strategic Resources.</p>

Prudential Indicator				Comment																																												
<p>5 Authorised Limit for External Debt</p> <p>In respect of its external debt, it is recommended that the County Council approves the following Authorised Limits for its total external debt for the next three financial years.</p> <p>The Prudential Code requires external borrowing and other long term liabilities (PFI and Finance leases) to be identified separately.</p> <p>The authorised limit for 2018/19 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.</p>				<p>The Corporate Director – Strategic Resources confirms that these authorised limits are consistent with the County Council’s current commitments, updated Capital Plan and the financing of that Plan, the 2019/20 Revenue Budget and Medium Term Financial Strategy and with its approved Treasury Management Policy Statement.</p> <p>The Corporate Director – Strategic Resources also confirms that the limits are based on the estimate of most likely prudent, but not worst case, scenario with sufficient headroom over and above this to allow for operational issues (e.g. unusual cash movements). To derive these limits a risk analysis has been applied to the Capital Plan, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.</p> <p>The updated figures reflect a number of refinements which are also common to the Capital Financing Requirement (see Indicator 3) and Operational Boundary for external debt (see Indicator 6). Explanations for these changes are provided under Indicators 3 and 6 respectively.</p>																																												
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Prudential Indicator				Comment		
<p>6 Operational Boundary for External Debt</p> <p>It is recommended that the County Council approves the following Operational Boundary for external debt for the same period.</p> <p>The proposed operational boundary for external debt is based on the same estimates as the Authorised Limit (ie Indicator 5 above) but also reflects an estimate of the most likely prudent, but not worst case, scenario without the additional headroom included within the Authorised Limit to allow for eg unusual cash flows.</p>				<p>The Operational Boundary represents a key management tool for the in year monitoring of external debt by the Corporate Director – Strategic Resources.</p> <p>The updated figures reflect refinements which are common to the Capital Financing Requirement (see Indicator 3 above), together with</p> <p>(a) relative levels of capital expenditure funded internally from cash balances rather than taking external debt</p> <p>(b) loan repayment cover arrangements and the timing of such arrangements</p> <p>These two financing transactions affect external debt levels at any one point of time during the financial year but do not impact on the Capital Financing Requirement.</p>		
	Executive August 2018			Update January		
Year	External Borrowing	Other long term liabilities	Total Borrowing Limit	External Borrowing	Other long term liabilities	Total Borrowing Limit
	£m	£m	£m	£m	£m	£m
2018/19	309.9	159.3	469.2	341.8	159.3	501.1
2019/20	327.3	157.8	485.1	359.4	157.8	517.2
2020/21	337.4	156.1	493.5	356.4	156.1	512.5
2021/22	-	-	-	348.1	154.3	502.4

Prudential Indicator					Comment							
<p>7 Actual External Debt</p> <p>The County Council's external debt is set out below and consists of external borrowing from the PWLB and money markets plus other long term liabilities such as PFI and finance leases which are classified as external debt for this purpose.</p>					<p>The updated estimates for the 3 years to 31 March 2022 reflect refinements which are common to the Capital Financing Requirement (see Indicator 3 above) together with the relative levels of capital expenditure internally funded from cash balances rather than taking external debt.</p>							
	Executive August 2018								Update January 2019			
Year	Basis	Borrowing	Other Long Term liabilities (PFI etc)	Total					Basis	Borrowing	Other Long Term liabilities (PFI etc)	Total
		£m	£m	£m						£m	£m	£m
31 Mar 2018	actual	287.5	160.4	447.9					actual	287.5	160.4	447.9
31 Mar 2019	probable	285.1	159.3	444.4					probable	285.1	159.3	444.4
31 Mar 2020	estimate	263.1	157.8	420.9	estimate	263.1	157.8	420.9				
31 Mar 2021	estimate	236.0	156.1	392.1	estimate	236.0	156.1	392.1				
31 Mar 2022	estimate				estimate	221.8	154.3	376.1				
<p>It should be noted that actual external debt is not directly comparable to the Authorised Limit (Indicator 5 above) and Operational Boundary (Indicator 6 above) since the actual external debt reflects a position at one point in time.</p>												
<p>8 Limit of Money Market Loans (Local Indicator)</p> <p>Borrowing from the money market for capital purposes (as opposed to borrowing from the PWLB) is to be limited to 30% of the County Council's total external debt outstanding at any one point in time.</p> <p>The actual position at 31 March 2019 was 7% (£20m out of a total of £287.5m) against an upper limit of 30%</p>					<p>This limit was introduced as a new Local Prudential Indicator in 2009/10, although the 30% limit has featured as part of the Borrowing Policy section of the County Council's Annual Treasury Management and Investment Strategy for many years.</p>							

Prudential Indicator	Comment																																													
<p>9 Maturity Structure of Borrowing</p> <p>The upper and lower limits for the maturity structure of County Council borrowings are as follows:-</p> <p>The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate:</p> <table border="1" data-bbox="217 592 1211 1018"> <thead> <tr> <th data-bbox="217 592 616 687">Period</th> <th data-bbox="616 592 741 687">Lower Limit %</th> <th data-bbox="741 592 860 687">Upper Limit %</th> <th colspan="2" data-bbox="860 592 1211 687">Memo item - actual at</th> </tr> <tr> <td></td> <td></td> <td></td> <th data-bbox="860 687 1037 735">1 April 18 %</th> <th data-bbox="1037 687 1211 735">1 April 19 %</th> </tr> </thead> <tbody> <tr> <td data-bbox="217 687 616 735">under 12 months</td> <td data-bbox="616 687 741 735">0</td> <td data-bbox="741 687 860 735">50</td> <td data-bbox="860 687 1037 735">1</td> <td data-bbox="1037 687 1211 735">9</td> </tr> <tr> <td data-bbox="217 735 616 783">12 months & within 24 months</td> <td data-bbox="616 735 741 783">0</td> <td data-bbox="741 735 860 783">25</td> <td data-bbox="860 735 1037 783">9</td> <td data-bbox="1037 735 1211 783">15</td> </tr> <tr> <td data-bbox="217 783 616 831">24 months & within 5 years</td> <td data-bbox="616 783 741 831">0</td> <td data-bbox="741 783 860 831">50</td> <td data-bbox="860 783 1037 831">25</td> <td data-bbox="1037 783 1211 831">10</td> </tr> <tr> <td data-bbox="217 831 616 879">5 years & within 10 years</td> <td data-bbox="616 831 741 879">0</td> <td data-bbox="741 831 860 879">75</td> <td data-bbox="860 831 1037 879">3</td> <td data-bbox="1037 831 1211 879">4</td> </tr> <tr> <td data-bbox="217 879 616 927">10 years and within 25 years</td> <td data-bbox="616 879 741 927">0</td> <td data-bbox="741 879 860 927">100</td> <td data-bbox="860 879 1037 927">9</td> <td data-bbox="1037 879 1211 927">9</td> </tr> <tr> <td data-bbox="217 927 616 975">25 years and within 50 years</td> <td data-bbox="616 927 741 975">0</td> <td data-bbox="741 927 860 975">100</td> <td data-bbox="860 927 1037 975">53</td> <td data-bbox="1037 927 1211 975">53</td> </tr> <tr> <td data-bbox="217 975 616 1018"></td> <td data-bbox="616 975 741 1018"></td> <td data-bbox="741 975 860 1018"></td> <td data-bbox="860 975 1037 1018">100</td> <td data-bbox="1037 975 1211 1018">100</td> </tr> </tbody> </table>	Period	Lower Limit %	Upper Limit %	Memo item - actual at					1 April 18 %	1 April 19 %	under 12 months	0	50	1	9	12 months & within 24 months	0	25	9	15	24 months & within 5 years	0	50	25	10	5 years & within 10 years	0	75	3	4	10 years and within 25 years	0	100	9	9	25 years and within 50 years	0	100	53	53				100	100	<p>These limits are reviewed annually and have been updated to reflect the current maturity structure of the County Council's debt portfolio.</p>
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Prudential Indicator	Comment
<p>10 Total Principal Sums Invested for periods longer than 365 days</p> <p>The 2018/19 aggregate limit of £40m for 'non specified' investments longer than 365 days is based on a maximum of 20% of estimated 'core cash funds' up to 2021/22 being made available for such investments.</p> <p>The purpose of this prudential limit for principal sums invested for longer than 365 days is for the County Council to contain its exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of principal sums invested.</p>	<p>No change to this limit is proposed.</p> <p>The County Council currently has no such investments that fall into this category.</p> <p>Prior to 1 April 2004, Regulations generally prevented local authorities from investing for longer than 365 days. As a result of the Prudential Regime however, these prescriptive regulations were abolished and replaced with Government Guidance from April 2004.</p> <p>This Guidance gives authorities more freedom in their choice of investments (including investing for periods longer than 365 days) and recognises that a potentially higher return can be achieved by taking a higher (ie longer term) risk.</p> <p>This flexibility requires authorities to produce an Annual Investment Strategy that classifies investments as either Specified (liquid, secure, high credit rating & less than 365 days) or Non Specified (other investments of a higher risk). Non Specified investments are perfectly allowable but the criteria and risks involved must be vigorously assessed, including professional advice, where appropriate. Therefore investments for 365 days+ are allowable as a Non Specified investment under the Government Guidance. The use of such investments is therefore now incorporated into the County Council's Annual Treasury Management and Investment Strategy.</p>