ANNEX N

MILTON KEYNES COUNCIL

TREASURY MANAGEMENT STRATEGY

2015/16

TO

2019/20

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1 INTRODUCTION

1.1 Background

1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of an organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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

1.2 Reporting Requirements

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year (four will be reported by this Council as set out below), which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by Cabinet.

1.2.2 **Treasury Management Strategy (This report)** – This report covers:

- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised); and
- an investment strategy (the parameters on how investments are to be managed).

1.2.3 **Prudential and Treasury Indicators Report (As part of the Budget Report elsewhere on this agenda)** - This report covers:

- the capital plans (including prudential indicators);
- the treasury indicators relevant to this report.

1.2.4 **A Mid Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision (This Council currently provides quarterly updates).

1.2.5 **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2 CAPITAL PRUDENTIAL INDICATORS FOR 2015/16 – 2019/20

2.1 Context

2.1.1 The Council’s capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist in decisions for capital expenditure plans.

2.1.2 Major items of capital expenditure (provisional) within this planning horizon and included in the prudential indicators calculations are;

- investment in infrastructure assets;
- a new waste processing facility.

2.1.3 The Prudential and Treasury Indicators are to be set alongside the overall budget setting process in February. Once set, those indicators will be applied in the context of all treasury management decisions.

2.2 Minimum Revenue Provision (MRP)

2.2.1 The Council is required to pay off an element of the accumulated General Fund borrowing requirement used to fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

2.2.2 The Department for Communities and Local Government (CLG) have issued regulations which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the approach set out in Appendix B.

3 TREASURY MANAGEMENT STRATEGY

3.1 Context

3.1.1 The Council's capital expenditure plans are to be set out in the Capital Programme as part of the overall budget setting process. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. This report has been prepared alongside the Prudential Indicators report to provide an integrated treasury strategy.

3.2 Current Portfolio Position

3.2.1 The Council's forecast treasury position at 1st April 2015 and forward projections are summarised below. The table shows the actual external debt (the treasury operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), and any over or under borrowing.

Table 1 – Current Portfolio Position

£m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External debt					
External debt at 1 April	537.678	524.146	521.350	518.948	509.952
Repayment of borrowing during year	(13.533)	(2.473)	(2.568)	(7.666)	(7.087)
Other borrowing – tariff cashflow	0.158	0.162	0.166	(1.330)	(6.358)
*Other long-term liabilities (OLTL) **	*(0.157)*	*(0.485)*	*0.000*	*0.000*	*0.000*
External debt at 31st March (1)	**524.146**	**521.350**	**518.948**	**509.952**	**496.507**
Capital Financing Requirement	**541.727**	**668.828**	**665.273**	**663.408**	**661.293**
Under / (over) borrowing	***17.581***	***147.478***	***146.325***	***153.456***	***164.786***
Total Investments at 31st March (2)	**225.000**	**90.000**	**90.000**	**80.000**	**70.000**
Investment change	-	*(135.000)*	-	*(10.000)*	*(10.000)*
Net Debt (1 – 2)	**299.788**	**432.477**	**428.947**	**429.952**	**426.507**

*- liability based on pre-existing Finance Leases.

3.2.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years (shown as net debt above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.2.3 The forecast shown in Table 1 shows the forecast debt for Milton Keynes Council is below its actual and forecast CFR and is therefore only borrowing for capital purposes.

3.3 Treasury Indicators

3.3.1 Prudential and Treasury Indicators are set alongside the overall budget setting process in February as a single comprehensive suite. Once set, those indicators will be applied in the context of all treasury management decisions.

3.4 Forward Planning

3.4.1 To assist with its long-term Treasury Management Strategy, the Council has developed a financial model to forecast the net borrowing requirement per year over a 50-year period. This model will be used to identify optimum borrowing opportunities, ensuring the timeframe for any new borrowing is matched to the provisions set aside for repayment. The margin by which borrowing costs outweigh investment returns is known as a cost of carry, and this strategic approach aims to limit this risk exposure.

3.5 External Funds

3.5.1 The Council established three wholly owned limited liability partnerships (LLP);

- Milton Keynes Service Partnership (MKSP) LLP
- MKSP Direct LLP
- Milton Keynes Development Partnership (MKDP) LLP

3.5.2 The purpose, aims and objectives of these LLPs are linked to an annual business plan approved by the Council. The LLPs will follow the Accounting Policies and Principles of the Council, including this strategy.

3.5.3 Unless otherwise agreed by the LLP Board, the Council's Annual Investment Strategy will be applied in the management of LLPs treasury activity.

3.5.4 In accordance with the Local Government Act 2003, the LLPs are deemed as 'external funds' and as such any treasury management activities undertaken on behalf of the LLPs will be treated as separate from the Council. The LLPs Board will receive reports on treasury management activity undertaken on behalf of the LLPs.

3.5.5 Should the Council establish any further partnerships of a similar nature, they will be treated in a consistent manner for treasury purposes.

4 EXTERNAL CONTEXT

4.1 Economic Background

4.1.1 There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP.

4.1.2 However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

4.1.3 The Monetary Policy Committee (MPC) has focused on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for 0.25% increase in rates at each of the meetings August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August Inflation Report.

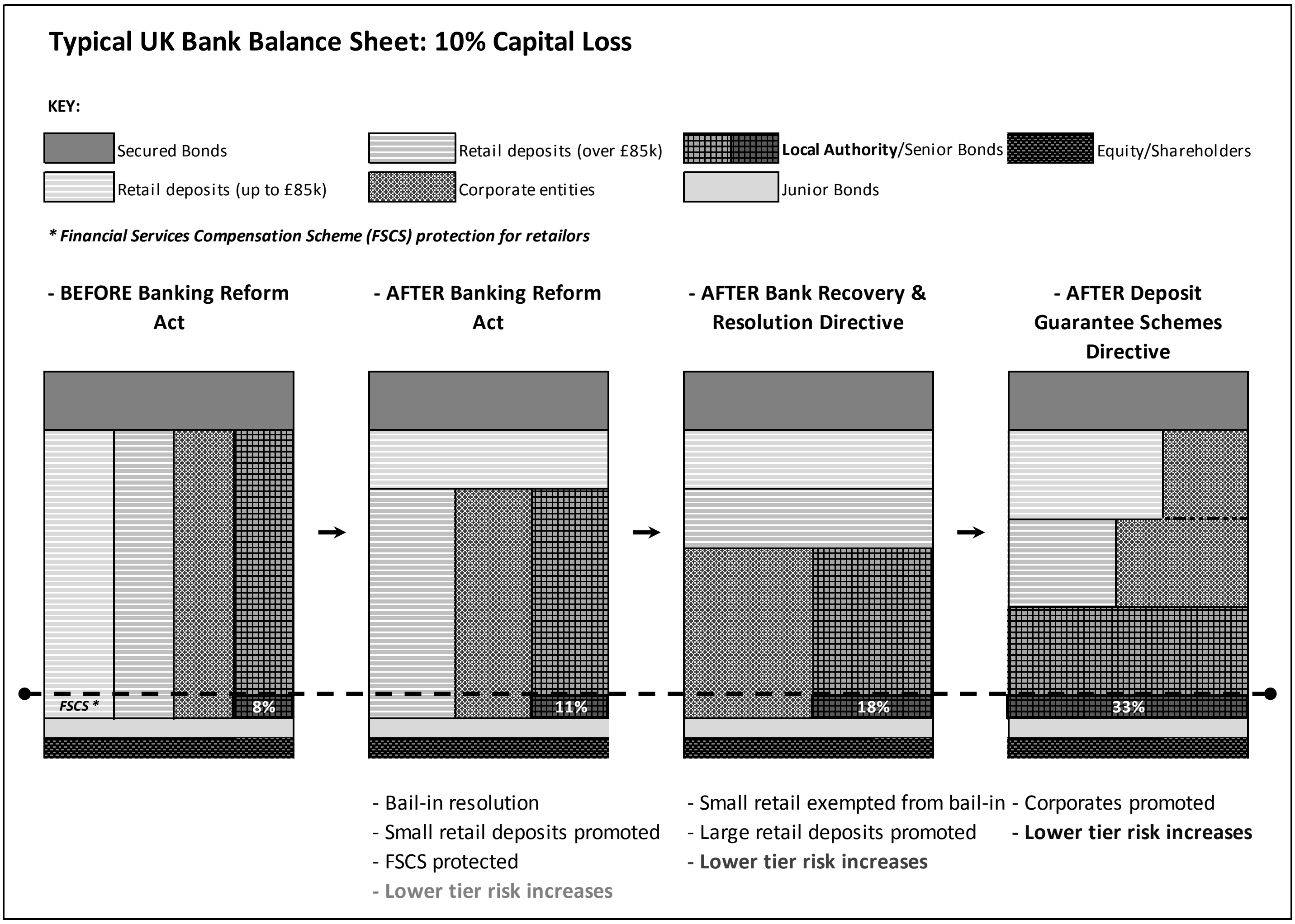
4.2 Credit Outlook

4.2.1 The transposition of two European Union (EU) directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The '*Bank Recovery and Resolution Directive'* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

4.2.2 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in spreads in the credit default swap (CDS) market, a measure of insurance against default, of banks and companies around the world.

4.2.3 However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council. Chart 1 below illustrates the change in risk profile when analysing a typical UK bank balance sheet as a result.

Chart 1 – Increase in relative risk of unsecured bank deposits



4.3 Interest Rate Forecast

4.3.1 The Council's treasury management advisors forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. A normalised level of Bank Rate post-crisis is expected to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Gilt yields are projected on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

4.3.2 A more detailed economic and interest rate forecast is attached at Appendix D.

5 BORROWING STRATEGY

5.1 Context

5.1.1 The 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 Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent despite low borrowing rates, as investment returns are low and counterparty risk is high.

5.2 Approach to borrowing

5.2.1 Against the context (above) and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Corporate Director, Resources will monitor or interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- Where intelligence suggests that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- Where intelligence suggests 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 drawn whilst interest rates were still relatively cheap.

PWLB Certainty Rates

5.2.2 In November 2012 HM Treasury released details of the PWLB Certainty Rate discount on PWLB loans. This offers a 20 basis point reduction on PWLB loans to eligible authorities – of which Milton Keynes Council is included.

5.2.3 The Interest Rate Forecast included at Appendix C has been adjusted accordingly to reflect this discount.

HRA Self Financing

5.2.4 The 1st April 2012 saw the introduction of the Housing Self-Financing regime. As previously reported this Council adopted a single pool approach, whereby the Council manages its overall debt as a single portfolio and apportions costs to the General Fund and HRA at a consolidated rate in proportion to the debt held by each.

5.2.5 By adopting a single pool approach to apportioning debt charges, any changes to the overall Council debt pool will impact upon the consolidated rate. The Corporate Director, Resources will monitor this impact when assessing borrowing options.

5.3 Treasury Management Limits on Activity

5.3.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and/or improve performance. These indicators are:

- **Upper limits on variable interest rate exposure.** This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- **Upper limits on fixed interest rate exposure.** This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- **Maturity structure of borrowing.** These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

5.3.2 These indicators shall be set in the Prudential and Treasury Indicators report presented alongside the budget setting process.

5.4 Borrowing in Advance of Need

5.4.1 The 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. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

5.4.2 Risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

5.5 Debt Rescheduling

5.5.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, 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).

5.5.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- amending the balance of the portfolio (I.e. amend the maturity profile and/or the balance of volatility).

5.5.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

5.5.4 Details of any rescheduling undertaken will be reported to Cabinet at the earliest meeting following its action.

6 ANNUAL INVESTMENT STRATEGY (AIS)

6.1 Context

6.1.1 Both the CIPFA Code and the CLG Guidance require Council's to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults as well as the risk of receiving unsuitably low investment income.

6.1.2 Given increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This is especially the case for funds available for longer-term investment. Approximately 70% of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will therefore represent a substantial change in strategy.

6.2 Investment Portfolio Limits

6.2.1 Portfolio limits are set to manage exposure to loss of investment principal. Were losses to be incurred, this would present an immediate pressure against revenue reserves. The Council's revenue reserves that would be available to cover investment losses are forecast to be £64m on 31st March 2015. In order that no more than 50% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £32m.

6.2.2 A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts.

Table 2 - Counterparty Limits

	Limit
UK Central Government	Unlimited
Any single organisation or group under same ownership, except the UK Central Government	Max. £32m each
Any group of pooled funds under the same management	Max. £15m each
Negotiable instruments held in a broker's nominee account	Max. £150m each
Foreign countries	Max. £96m per country
Registered Providers	Max. £48m in total
Investments with Building Societies	Max. £96m in sector [No more than 20% unrated]
Loans to unrated corporates	£25m in total
Money Market Funds	£162m in total

6.2.3 The Council may invest in products that are subject to market valuations (bond funds, property funds etc) that represent gains or losses, but such fluctuations would only be realised upon withdrawal. Where an investment carries a risk of fluctuation to the capital sum invested, the Council will divert a proportion of the interest received to a reserve provision. Should a capital loss be realised, this reserve may be called upon to mitigate the impact upon the general fund budget.

6.3 Counterparty Selection

6.3.1 Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

6.3.2 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. This may lead to suspension of institutions from further investments, recalling or redeeming existing investments at no cost where able to do so, or even consideration of recall or redemption at a cost.

6.3.3 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, officers may restrict duration of deposits with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

6.3.5 The Council recognises that the responsibility for treasury management decisions remains with the Council at all times. Therefore the Corporate Director, Resources is authorised to further restrict or relax the investment names, limits and duration periods in order to safeguard the Council's resources.

6.4 Approved Counterparties

6.4.1 The Council may invest its surplus funds with any of the counterparty types in Table 2 below, subject to maximum limits (per counterparty) and durations.

Table 3 - Approved Investment Counterparties and Limits

Long Term Credit Rating	Banks/Building Societies Unsecured	Banks/Building Societies Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA / Aaa	Max: £16m Up to: 5 years	£32m 20 years	£32m 50 years	£16m 20 years	£16m 20 years
AA+ / Aa1	Max: £16m Up to: 5 years	£32m 10 years	£32m 25 years	£16m 10 years	£16m 10 years
AA / Aa2	Max: £16m Up to: 4 years	£32m 5 years	£32m 15 years	£16m 5 years	£16m 10 years
AA- / Aa3	Max: £16m Up to: 3 years	£32m 4 years	£32m 10 years	£16m 4 years	£16m 10 years
A+ / A1	Max: £16m Up to: 2 years	£32m 3 years	£16m 5 years	£16m 3 years	£16m 5 years
A / A2	Max: £16m Up to: 13 months	£32m 2 years	£16m 5 years	£16m 2 years	£16m 5 years
A- / A3	Max: £16m Up to: 6 months	£32m 13 months	£16m 5 years	£16m 13 months	£16m 5 years
BBB+ / Baa1 / Baa 2	Max: £3m Up to: 100 days	£16m 6 months	£3m 2 years	£3m 6 months	£3m 2 years
BBB / BBB- / Baa3	Max: £3m Up to: next day only	£16m 100 days	n/a	n/a	n/a
None	Max: £1m Up to: 6 months	n/a	£16m 25 years	£50k 5 years	£16m 5 years
AAA / Aaa Pooled Funds	Net Asset Value £1bn or greater: £15m Net Asset Value less than £1bn: 0.50% per £50m				

6.4.2 **Banks/Building Societies:** The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

6.4.3 **Banks/Building Societies Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

6.4.4 **Banks/Building Societies Secured:** Covered (collateralised) bonds, reverse repurchase agreements (REPO) and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in risk. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

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

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

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

6.4.8 **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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

6.5 Extreme Market Conditions

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

6.6 Council's Bankers

6.6.1 Should the long-term credit rating of the Council's incumbent bankers fall below A- / A3 the Council may continue to place up to a maximum of £16m on an instant-access overnight basis only. If enacted, this practice will be kept under daily review.

6.6.2 Contractual rights allow the Council to exit the banking contract at short notice if the bank's credit ratings fall below an acceptable level.

6.7 Financial Planning

6.7.1 For its cash flow generated balances, the Council will seek to utilise money market funds, business reserve accounts, short-notice accounts, and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest and liquidity.

6.7.2 Core investment funds (those not required to fund immediate cash flow requirements) may be deposited for longer periods, in line with the criteria detailed within this report and relevant indicators.

6.7.3 Prudent estimated investment returns for future years have been fed through into the Medium Term Financial Plan (MTFP).

6.8 Local Authority Mortgage Scheme (LAMS)

6.8.1 The Council may assess the viability of a Local Authority Mortgage Scheme (LAMS) whereby the Council provides assistance to first-time buyers in entering the housing market.

6.8.2 The Minimum Revenue Provision policy (Appendix B) and Specified and Non-Specified Investments assessment (Appendix E) include appropriate reference to this scheme, should the Council decide to pursue this.

6.9 End of Year Outturn Report

6.9.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

6.10 Policy on the use of external service providers

The Council uses Arlingclose Ltd as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

6.10.1 The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

6.11 Scheme of Delegation and Role of the Section 151 Officer

6.11.1 Please refer to Appendix F which sets out the responsibilities for treasury management.

APPENDIX A – TREASURY MANAGEMENT POLICY STATEMENT

Treasury Management activity within this Council will be undertaken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services (The TM Code).

1. This organisation defines its treasury management activities as:

   The management of the organisation's investment 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.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievements of its business and service objectives. It is therefore 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 risks management.

In adopting the TM code, this Council shall apply the following four key principles:

1. This organisation will create and maintain, as the cornerstone for effective treasury management:

   i. a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities (this document);
   ii. suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the policy statement (this document) and TMPs will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. Cabinet will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report afters its close, in the form prescribed in the TMPs.

APPENDIX A – TREASURY MANAGEMENT POLICY STATEMENT cont.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury decisions to Corporate Director, Resources who will act in accordance with the organisation's policy statement and TMPs and (if a member) CIPFA's Standard Professional Practice on Treasury Management.

4. This organisation nominates Budget Review Group to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.

Summary of approach to Borrowing and Investments

Full details of the Council's approach to Borrowing and Investment are contained within the main Treasury Management Strategy report. In summary, these are:

Borrowing; The Council will maintain a cautious approach to borrowing and adopt a pragmatic approach to changes in market circumstances, but ensuring cashflow requirements and capital financing needs are met. The Council will also aim to structure borrowing to ensure that the HRA has sufficient capital to meet asset management needs whilst minimising the cost of carrying excessive debt to the HRA. The Council will not borrow in advance purely to profit from the investment of the extra sums borrowed. Loan rescheduling opportunities shall be kept under review.

Investments; The Council's investment priorities will be **security, liquidity,** and **yield – strictly in that order.** Investment activity shall be conducted in accordance the adopted Annual Investment Strategy (AIS). The Council will manage investment balances with reference to core funds, cash flow requirements and the outlook for interest rates.

APPENDIX B – MINIMUM REVENUE PROVISION (MRP) POLICY

The Council is required to pay off an element of the accumulated General Fund borrowing requirement used to fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. Four primary options are set out to council's, however this does not preclude other options so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement:

Capital Expenditure incurred before 1st April 2008 or future SCE

The major proportion of the MRP charge will relate to the more historic debt liability.

For capital expenditure incurred before 1st April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- Existing practice - MRP will follow the existing practice outlined in DCLG regulations (known as Option 1).

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

Capital Expenditure incurred after 1st April 2008

From 1 April 2008 for all unsupported borrowing except those separately listed in this Policy (including PFI and finance leases) the MRP policy will be either:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (known as Option 3);

- Depreciation method – MRP will follow standard depreciation accounting procedures (known as Option 4);

These options provide for a reduction in the borrowing need over the approximate asset's life.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset 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 Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

APPENDIX B – MINIMUM REVENUE PROVISION (MRP) POLICY cont.

As some types of capital expenditure incurred by the Council are not 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.

Housing Revenue Account (HRA)

There is no requirement on the HRA to make a minimum revenue provision. However as a result of HRA reforms the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, transitional regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.

Repayments included in annual PFI or finance leases are applied as MRP.

Assets for Future Development

For assets acquired for future development, where it is anticipated that the future sale proceeds of the asset will offset the cost, the repayment of the debt may be funded from future capital receipts arising as an alternative prudent provision (thus negating the requirement to provide for MRP).

This approach will be reviewed on an annual basis, to ensure that anticipated capital receipts continue to offset the cost of the debt.

Local Authority Mortgage Scheme (LAMS)

For authorities who participate in the Local Authority Mortgage Scheme (LAMS) using a cash backed option, the mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party.

The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit would be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly.

As this constitutes a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

APPENDIX C – INTEREST RATE FORECAST 2015 – 2020

	Mar 2015	Jun 2015	Sept 2015	Dec 2015	Mar 2016	Jun 2016	Sept 2016	Dec 2016	Mar 2017	Jun 2017	Sept 2017	Dec 2017	Mar 2018
Official Bank Rate													
Upside Risk				0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Arlingclose View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%
Downside Risk			(0.25%)	(0.25%)	(0.50%)	(0.50%)	(0.75%)	(0.75%)	(1.00%)	(1.00%)	(1.00%)	(1.00%)	(1.00%)
Public Works Loans Board Implied Rates													
5 years	2.25%	2.40%	2.55%	2.70%	2.80%	2.95%	3.05%	3.15%	3.25%	3.30%	3.35%	3.40%	3.40%
10 years	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.55%	3.60%	3.65%	3.70%	3.75%
20 years	3.35%	3.45%	3.55%	3.65%	3.75%	3.80%	3.85%	3.90%	3.95%	4.00%	4.05%	4.10%	4.10%
50 years	3.45%	3.50%	3.60%	3.70%	3.80%	3.85%	3.90%	3.95%	4.00%	4.05%	4.10%	4.35%	4.40%

APPENDIX D – ECONOMIC BACKGROUND

Underlying assumptions:

The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.

Consumption growth is expected to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.

Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. Commodity prices are expected to remain subdued given the weak outlook for global growth.

The Monetary Policy Committee (MPC) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate.

Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. But spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

However, employment growth would slow should economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflation.

In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.

The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC evidently believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm, suggested as between 2.5% and 3.5%.

While the European Central Bank is likely to introduce outright quantitative easing, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.

The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

APPENDIX D – ECONOMIC BACKGROUND cont.

Forecast:

Forecasts place the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.

Official Bank Rate will rise slowly. The pace of interest rate rises will be gradual and the extent of rises limited; the normalised level of Bank Rate post-crisis is expected to range between 2.5% and 3.5%.

The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. Gilt yields are projected to take on an upward path in the medium term.

APPENDIX E – SPECIFIED AND NON-SPECIFIED INVESTMENTS

Specified Investments; Sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes.

Non-Specified Investments; Any other type of investment which does not meet the criteria to be classified as specified.

Assessment; The Council has accessed the classification of investment products as follow:

Specified Investments ***(Maturities up to 1 year)***	**Non Specified Investments** ***(Maturity in excess of 1 year)***
Debt Management Agency Deposit Facility	Term deposits – local authorities & housing associations/registered social landlords
Call / Notice accounts - banks & building societies	Term deposits – banks and building societies
Term deposits* – local authorities & housing associations/registered social landlords	Certificates of deposits – banks & building societies
Term deposits* – banks & building societies	Fixed term deposits with variable rate and variable maturities:- Structured deposits
Certificates of deposits* – banks & building societies	UK Government Gilts
UK Government Gilts	Commercial Papers/Corporate Bonds
Reverse Repurchase Agreements* (REPOs)	Reverse Repurchase Agreements (REPOs)
Covered Bonds*	Covered Bonds
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -	
1. Government Liquidity Funds	1. Bond Funds / Gilt Funds
2. Money Market Funds	2. Property Funds
3. Enhanced cash funds	
4. Bond Funds / Gilt Funds	
Local Authority Mortgage Guarantee Scheme; under such scheme the Council would be required to place funds to underwrite risk of default for a period of years. If undertaken this would be classified as a service investment rather than a treasury management investment, and fall outside of the Specified/Non-specified categories.	

*** -** If forward dealing, the forward period plus the deal period should not exceed one year in aggregate to classify as a specified investment. Any forward deposits in excess of one year in aggregate will classify as non-specified.

APPENDIX F – RESPONSIBILITIES FOR TREASURY MANAGEMENT

(i) Council

- approval of annual strategy;
- budget consideration and approval.

(ii) Cabinet

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of/amendments to the organisation's adopted clauses and treasury management policy statement;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

(iii) The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- reviewing the treasury management policy and procedures.
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- 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;
- approving the selection of external service providers and agreeing terms of appointment.
- delegated authority for operational treasury management decisions as appropriate (as set out in this strategy).