Wiltshire Council

Council

20 February 2018

Subject:	**Treasury Management Strategy 2018/2019**
Cabinet member:	**Councillor Philip Whitehead - Finance**
Key Decision:	**No**

Executive Summary

This report presents the Treasury Management Strategy for 2018/2019 including:

a) the Prudential and Treasury Indicators for the next three years

b) Debt management decisions required for 2018/2019 that do not feature within the Prudential or Treasury Indicators (paragraphs 21 to 29)

c) the Minimum Revenue Provision Policy 2017/2018 (revised) and 2018/2019

d) the Annual Investment Strategy for 2018/2019 (Appendix B) ***one change to last year, being the removal of the minimum requirement for high credit quality relating to viability ratings***

This report has been prepared in accordance with CIPFA Code of Practice for Treasury Management in the Public Services 2011, as revised December 2017. Any relevant changes within the code of practice have been reflected within the Treasury Management Strategy 2018/2019. Cabinet considered the Treasury Management report and Strategy at its meeting on 6 February 2018 and has recommended its approval to this Council meeting. The report to Cabinet is attached to this summary.

Proposals

That Council:

a) Adopt the Minimum Revenue Provision Policy as set out at paragraph 46.

b) Adopt the Prudential and Treasury Indicators (Appendix A)

c) Adopt the Annual Investment Strategy (Appendix B), ***including the ratification of the removal of the minimum requirement for high credit quality relating to viability ratings***

d) Delegate to the Director of Finance the authority to vary the amount of borrowing and other long-term liabilities within the Treasury Indicators for the Authorised Limit and the Operational Boundary

e) Authorise the Director of Finance to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long-term portfolio

f) Agree that short term cash surpluses and deficits continue to be managed through temporary loans and deposits

g) Agree that any surplus cash balances not required to cover borrowing are placed in authorised money-market funds, particularly where this is more cost effective than short term deposits and delegate to the Director of Finance the authority to select such funds

Reasons for Proposals

To enable the Council to agree a Treasury Management Strategy for 2018/2019 and set Prudential Indicators that comply with statutory guidance and reflect best practice.

Dr Carlton Brand – Corporate Director

Wiltshire Council

Cabinet

6 February 2018

Subject:	**Treasury Management Strategy 2018/2019**
Cabinet member:	**Councillor Philip Whitehead - Finance**
Key Decision:	**No**

Purpose of Report

1. This report asks the Cabinet to consider and recommend that the Council approve the Prudential and Treasury Indicators, together with the Treasury Management Strategy for 2018/2019.

Background

2. The Council is required to operate a balanced budget, which 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 appropriately risk assessed counterparties or instruments commensurate within the Council's risk appetite set out in the Strategy, providing adequate liquidity initially before considering investment return.

3. 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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. CIPFA defines treasury management as:

   "The management of the local authority'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."

Reporting Requirements

5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

   a) Treasury Management Strategy Statement (this report), including prudential and treasury indicators, which covers the following,

      - the capital plans (including prudential indicators);
      - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
      - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
      - an investment strategy (the parameters on how investments are to be managed).

   b) Mid-year Treasury Management Report, which will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

   c) Annual Treasury Report, which provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Consultants

6. The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

7. 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.

8. 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. 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.

Prudential Indicators and Treasury Indicators

9. A summary of the Prudential and Treasury Indicators are shown in Appendix A. The key indicators are the Treasury Indicators relating to the Authorised Limit and the Operational Boundary, which control the Council's maximum exposure to debt.

10. The indicators have been set on the basis of all known commitments and the effect of all known revenue and capital proposals relating to the Council.

Monitoring and Reporting of the Prudential Indicators

11. Progress will be monitored throughout the year, particularly against the two borrowing limits above. Cabinet will be kept informed of any issues that arise, including potential or actual breaches.

12. The elements within the Authorised Limit and the Operational Boundary, for borrowing and other long-term liabilities require the approval of the Council. In order to give operational flexibility, members are asked to delegate to the Director of Finance and Procurement, the ability to effect movements between the two elements where this is considered necessary. Any such changes will be reported to members. The operational boundary is a key management tool for in-year monitoring. It will not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary is considered significant and will lead to further investigation and action as appropriate. Any breach of the operational boundary will be reported to members at the earliest meeting following the breach. The authorised limit will in addition need to provide headroom over and above the operational boundary, sufficient for unusual cash movements, for example, and should not be breached.

Borrowing Strategy

13. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, known as the Capital Financing Requirement (CFR), has not been fully funded (please refer to Appendix A – paragraph 6) with loan debt as cash supporting the Council's reserves, balances and cash flow have been used as a temporary measure (internal borrowing). This strategy is prudent, as investment returns are low and counterparty risk is still an issue that needs to be considered. This also drives the Council's assessment of investment in relation to the liquidity of investments.

14. Against this background and the risks within the economic forecast, caution will be adopted with the 2018/2019 treasury operations. The Director of Finance will, through delegation and reporting, monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

    a) if it was considered 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.

    b) if it was considered 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.

15. Any decisions will be reported to Cabinet at the earliest meeting following the decision.

Rate and Timing of Borrowing

16. In 2018/2019 two (PWLB) loans totalling £14.81 million mature and become repayable (March 2019).

17. The timing of any borrowing is crucial in terms of interest rates and the potential to minimise interest costs. Prior to any actual borrowing the treasury team will, in conjunction with our treasury advisers, proactively manage the interest rate position, using all information available to inform the borrowing decision.

18. It is, of course, not always possible to obtain the lowest rates of interest, as there is a risk that unforeseen events can significantly alter the level of rates, however, ongoing active monitoring of rates will mitigate against this risk.

19. In supporting the capital programme, the Council will consider all borrowing options, such as:

    a) internal borrowing, using medium term cash balances;
    b) fixed rate Public Works Loan Board (PWLB) borrowing;
    c) long term fixed rate market loans at rates,

20. The decision will be made whilst maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

Other Debt Management Issues

- **Policy on Borrowing in Advance of Need**

21. 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, because this is ulta vires. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the security of such funds is ensured.

- **Debt Rescheduling**

22. As short term borrowing rates will be 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 debt repayment cost (i.e. premiums for early repayment).

23. The reasons for any rescheduling to take place will include:

    a) the generation of cash savings and / or discounted cash flow savings;
    b) helping to fulfil the treasury strategy;
    c) enhancing the balance of the portfolio (the maturity profile and/or the balance of volatility).

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

25. All rescheduling will be reported to members in a treasury report at the earliest meeting following its action.

Lender Option Borrower Option (LOBO) Market Loans

26. Wiltshire Council currently has borrowings of £61 million in LOBO loans.

27. There are two main types of LOBO loan (of which the Council has both in its portfolio)

    a) a loan with an 'initial period' at a relatively low rate of interest, on the completion of which, the rate will automatically increase to a 'secondary rate' under the terms of the loan agreement. The interest rate is then subject to 'call option dates' at certain predetermined stages (e.g. every six months, every five years) over the life of the loan, at which time the lender has the option to set a revised interest rate and the borrower has the option to repay the loan without penalty;

b) a loan subject to ‘call option dates’ only (i.e. there is no ‘secondary rate’) at which time the lender has the option to raise the interest rate and the borrower has the option to repay the loan without penalty.

28. If the lender exercises his option to revise the interest rate at one of the ‘call option dates’, the Council’s strategy is that it will always exercise its option to repay the loan. Consideration will then be given to refinancing the debt where the overall level of debt prior to the repayment needs to be maintained.

29. In the current market of relatively low interest rates and very little significant upward movement in rates predicted in the near future, it is unlikely that the loans would be called in the short to medium term.

Annual Investment Strategy

30. The Annual Investment Strategy for 2018/2019, which sets out the policy framework for the investment of cash balances, is shown in Appendix B.

Other Key Issues

31. Other key issues to note are:

a) the risk appetite of the Council is low in order to give priority to the security of its investments;

b) the borrowing of monies purely to invest or on-lend is unlawful;

c) all investments will be in sterling, which will avoid foreign exchange rate risk.

- **Markets in Financial Instruments Directive (MiFID) II**

32. The second Markets in Financial Instruments Directive is now effective (commenced January 2018). In order to maintain the range of investments available to the Council there has been an administrative exercise to opt up from retail to professional classification for all counterparties where this has been required.

- **Capital Strategy**

33. To comply with the revised CIPFA Treasury Management Code, from 2019/2020 the Council will be required to prepare a Capital Strategy Report. This is intended to provide the following,

a. A high-level overview of how capital expenditure, capital financing and treasury management activity contribute towards the provision of services

b. An overview ion how the risk is managed

c. The implications for future financial sustainability

34. The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

- **Short Term Cash Deficits**

35. Temporary loans, where both the borrower and lender have the option to redeem the loan within twelve months, are used to offset short term revenue cash deficits. They may also be used to cover short term capital requirements until longer term loans become more cost effective. The majority of these loans will be at fixed interest rates, maturing on specific dates. The strategy is that the Council shall utilise temporary loans for any short-term cash deficits that arise in respect of revenue and/or capital.

- **Short Term Cash Surpluses**

36. It is anticipated that temporary short term (up to three months) cash surpluses will arise regularly during the year, due to timing differences between income streams and payments. Investment of these surpluses will be in specific investments (e.g. short-term Sterling investments of less than one year). Such investments will normally be short term deposits maturing on specific dates that reflect cash flow requirements at the date the deposit is made. However, under certain market conditions, money market funds will be used, particularly if they provide improved returns.

- **Longer Term Cash Surpluses (over three months, up to one year)**

37. Some cash surpluses, for example core revenue balances, net creditors, accrued reserves and special funds such as those for insurance and PFI can be invested on a long-term basis. These cash surpluses may be used for capital financing requirements, where longer term interest rates mean that it is less cost effective to take out longer term loans.

38. Improved returns may be obtained by placing these surpluses in money market funds. The Director of Finance has delegated authority to select money market funds

and appoint external cash managers within the current approved strategy and it is proposed that this authority is retained.

39. The proposed Investment Strategy for 2018/2019 includes the use of unspecified investments (e.g. more than 12 months to maturity and for which external professional advice is required) that the Council's treasury adviser may recommend for investment of longer term cash surpluses.

- **Minimum Revenue Provision Policy**

40. The minimum revenue provision (MRP) is the amount set aside for the repayment of the debt as a result of borrowings made to finance capital expenditure.

41. In October 2017, a review of the Council's MRP policy was undertaken with Link Asset Services. The objective was to optimise the benefits available under the MRP Guidance issued by the Department for Communities and Local Government in light of current budget pressures, whilst ensuring that the Council maintains a prudent provision for repayment of its debt liability.

42. A number of options were considered

- **Option 1: Regulatory Method (Supported borrowing)**

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

Option 2: CFR Method (Supported borrowing)
MRP is equal to between 2 and 4% of the CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation.

- **Option 3: Asset Life Method (Unsupported borrowing)**

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

- **(a) Equal instalment method**

MRP is the amount given by the following formula:

$$\frac{\mathbf{A - B}}{\mathbf{C}}$$

Where:

- **A** is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements
- **B** is the total provision made before the current financial year in respect of that expenditure
- **C** is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

- **(b) Annuity method**

  - MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

- **Option 4: Depreciation Method (Unsupported borrowing)**

  MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

  For this purpose standard depreciation accounting procedures should be followed, except in the following respects.

  a) MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.

  b) On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.

  c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

43. MRP charges should reflect the economic benefit the Council gets from using the asset to deliver services over its useful life. This ensures the Council Tax payers are being charged each year in line with asset usage and prevents current taxpayers meeting the cost of future usage or future Council Tax payers being burdened with “debt” and the costs of that debt, relating to assets that are no longer in use.

44. An analysis of the average remaining asset life of the assets financed from previous supported borrowing, determined the average remaining life to be around 50 years and

this has been used as the basis of calculation. An annuity calculation method was considered, which would result in a lower MRP payments in the early years, but increasing year on year. However, this was not considered to be a prudent approach given uncertainties amount the Council's future finances and not wishing to burden future Council Tax payers with additional costs. As such, a straight line (equal instalments) calculation basis over 50 years has been used. In the short to medium term this will also put the CFR more in line with the level of external borrowing, reducing any over/under borrowing.

45. This change in policy will generate a saving of £3.0m in 2017/18, compared to the previous calculation basis. It is proposed to take this as a base budget revenue saving in 2017/18.

46. As a result of the review we therefore recommend that Council approves the following revised MRP policy to be applied from 2017/18:

    a. In respect of the Council's supported borrowing – Option 2: MRP will be provided for in accordance with existing practice outlined in the former regulations but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years.

    b. ***MRP for capital expenditure incurred wholly or partly by unsupported (prudential) borrowing or credit arrangements*** - Option 3, Equal Instalments: is to be determined by reference to the expected life of the asset. Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

    c. ***MRP in respect of unsupported (prudential) borrowing*** - Option 3, Equal Instalments: taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

    d. The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

Overview and Scrutiny Engagement

47. None have been identified as arising directly from this report.

Safeguarding Implications

48. None have been identified as arising directly from this report.

Public Health Implications

49. None have been identified as arising directly from this report.

Procurement Implications

50. None have been identified as arising directly from this report.

Equalities Impact of the Proposal

51. None have been identified as arising directly from this report.

Environmental and Climate Change Considerations

52. None have been identified as arising directly from this report.

Risks Assessment

53. The primary treasury management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of its investment counterparties.

54. The strategies in Appendix A and Appendix B take account of the forecast movement in interest rates and allow sufficient flexibility to vary strategy if actual movements in interest rates are not in line with the forecast.

55. The Council's treasury adviser is currently reporting the following rate movements:

    a) In November 2017, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate (to 0.50%). This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%.

    b) The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

56. The risk that counterparties are unable to repay investments could jeopardise the Council's ability to meet its payments. Investment counterparty risk is controlled by using suitable criteria for assessing and monitoring credit risk, including the use of an up to date lending list. The lending list is based on counterparty categories relating to country, type, sector, maximum investment, and maximum duration of investment (see Appendix B). The Council uses the credit worthiness service provided by its treasury advisers, which is a comprehensive modelling approach incorporating the credit ratings of all three major credit rating agencies, together with

‘overlays’ of Credit Default Swap (CDS) spreads (default risk), credit watches, credit outlooks and sovereign ratings from the agencies (a more detailed explanation is included within the Annual Investment Strategy in Appendix B).

57. Interest earnings are an important source of revenue for the Council and it is, therefore, critical that the portfolio is managed in a way that maximises the investment income stream, whilst managing exposure to risk and maintaining sufficient liquidity.

Financial Implications

58. These have been examined and are implicit throughout the report.

Legal Implications

59. None have been identified as arising directly from this report.

Options Considered

60. Future consideration will be given to alternative borrowing and investment options to improve the cost effectiveness of and return on treasury activities for the Council.

61. The options in relation to the revenue and capital budgets in these proposals are fully consistent with the figures included within the budget considerations.

Michael Hudson
Director of Finance

Report Author: Stuart Donnelly, Head of Finance (Corporate)
Tel: 01225 718582, email: stuart.donnelly@wiltshire.gov.uk

Background Papers
The following unpublished documents have been relied on in the preparation of this Report: None.

Appendices

Appendix A Prudential and Treasury Indicators 2018/2019, 2019/2020 & 2020/2021
Appendix B Annual Investment Strategy 2018/2019
Appendix C Specified and non-specified Investments
Appendix D Approved countries for investments
Appendix E Treasury Management Scheme of Delegation and Role of the Section 151 Officer

Appendix A

Prudential and Treasury Indicators for 2018/2019, 2019/2020 & 2020/2021

1. The Prudential and Treasury Management Codes and Treasury Guidelines require the Council to set a number of Prudential and Treasury Indicators for the financial year ahead. This appendix sets out the indicators required by the latest codes analysed between Prudential Indicators and Treasury Indicators.

Capital Expenditure

2. This indicator shows the actual and anticipated level of capital expenditure for the five years 2016/2017 to 2020/2021. The Capital Programme 2018/2019 will be submitted to Cabinet and Council in February 2018. The estimates for 2019/2020 and 2020/2021 are based on indicative figures as part of the Capital Programme, and are therefore subject to change.

	2016/2017 Actual £million	2017/2018 Expected £million	2018/2019 Estimate £million	2019/2020 Estimate £million	2020/2021 Estimate £million
General Fund	61.2	114.3	113.1	67.3	41.8
Housing Revenue Account (HRA)	18.8	22.6	10.5	5.5	4.9
Total	**80.0**	**136.9**	**123.6**	**72.8**	**46.7**

3. The capital expenditure figures above assume a certain level of financing from borrowing each year. New and existing borrowing needs to be affordable and sustainable.

Affordability - Ratio of Financing Costs to Net Revenue Stream

4. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (funding receivable from the Government and council tax payers for the General Fund and rents receivable in the case of the HRA).

	2016/2017 Actual	2017/2018 Expected	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
General Fund	**7.3%**	**4.7%**	**4.9%**	**5.1%**	**5.3%**
HRA	**15.0%**	**14.8%**	**14.9%**	**14.7%**	**14.2%**

Gross Borrowing and the Capital Financing Requirement (CFR)

5. The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness ad so its underlying borrowing need. Any capital expenditure which has not immediately been paid for will increase the CFR.

Prudential and Treasury Indicators for 2018/2019, 2019/2020 & 2020/2021

6. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with the asset life, and so charges the economic consumption of capital assets as they are used.

	2016/2017 Actual £million	**2017/2018 Expected £million**	**2018/2019 Estimate £million**	**2019/2020 Estimate £million**	**2020/2021 Estimate £million**
CFR – General Fund	399.3	407.6	408.2	422.3	422.3
CFR – HRA	122.6	122.6	122.6	122.6	122.6
Gross Borrowing – Gen Fund	219.0	209.1	199.1	199.1	199.1
Gross Borrowing – HRA	118.8	118.8	114.0	106.0	102.0
CFR not funded by gross borrowing – Gen Fund	**180.3**	**198.5**	**209.1**	**223.2**	**223.2**
CFR not funded by gross borrowing – HRA	**3.8**	**3.8**	**8.6**	**16.6**	**20.6**

Treasury Management Indicators

Operational Boundary

7. The operational boundary is the limit beyond which external debt is not normally expected to exceed.

8. The operational boundary is based on a prudent estimate of the most likely maximum level of external borrowing for both capital expenditure and cash flow purposes, which is consistent with other budget proposals. The basis of the calculation for General Fund borrowing 2018/2019 (£436.3 million) is:

   - Expected CFR at 31/03/2018 = £408.2 million
   - Plus the expected long-term borrowing to finance capital expenditure (unsupported only £16.1million)
   - Less the expected set-aside for debt repayment (£8.0 million)
   - Plus the expected maximum level of short-term cash flow borrowing that is anticipated (£20.0 million).

Prudential and Treasury Indicators for 2018/2019, 2019/2020 & 2020/2021

9. The basis of the calculation for HRA borrowing 2018/2019 is the debt settlement of £123.2 million.

Operational Boundary	**2018/2019 £million**	**2019/2020 £million**	**2020/2021 £million**
General Fund	436.3	433.3	432.3
HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**559.7**	**556.7**	**555.7**

10. The operational boundary for each year also includes a small provision for other long term liabilities.

11. The operational boundary is a key management tool for monitoring the Authority's expected level of borrowing. It is essential to ensure that borrowing remains within the limits set and to take appropriate action where any likely breach is anticipated. Monitoring will take place through the year and will be reported to Cabinet.

Authorised Limit for External Debt

12. This key indicator represents a control on the maximum level of borrowing. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003, and represents a limit beyond which external debt is prohibited. It reflects the level of debt which, while not desired, could be afforded in the short term, but is not sustainable in the long term.

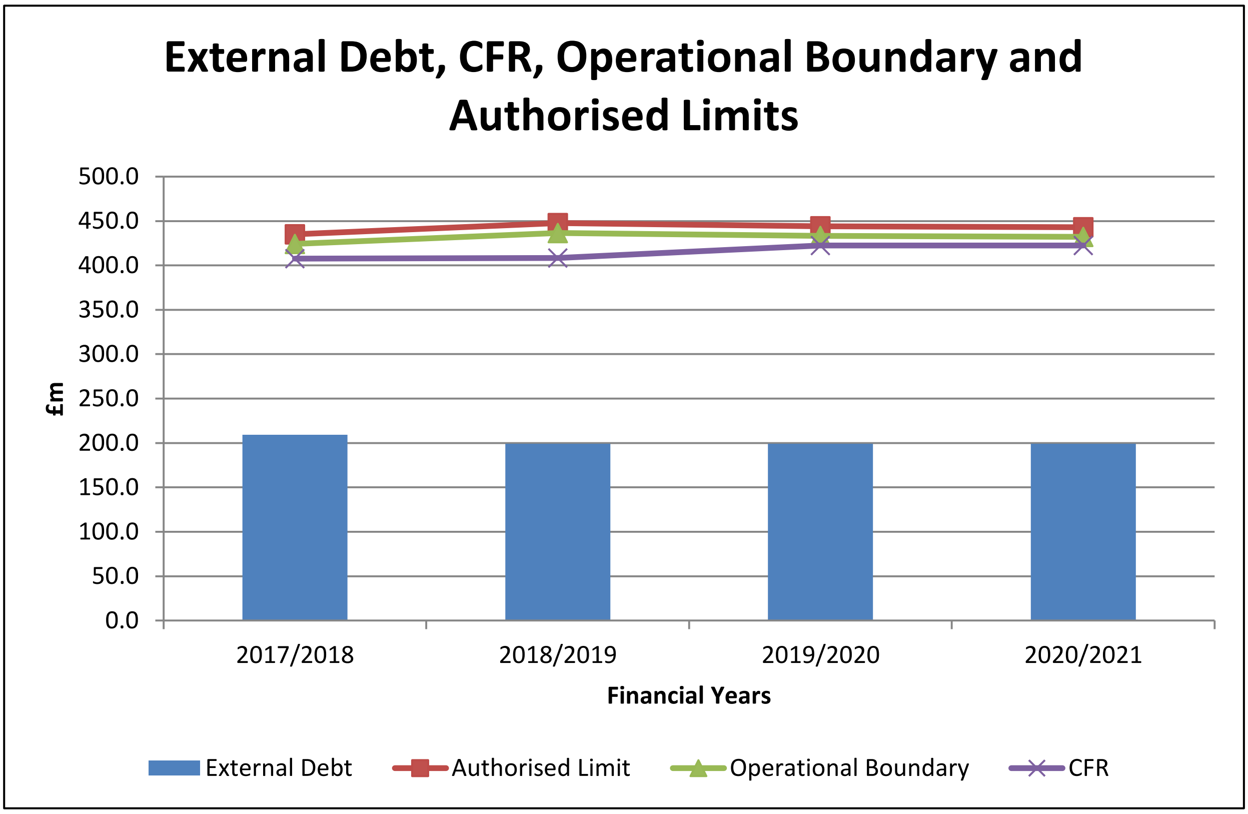
13. The authorised limit is the operational boundary, including an allowance for unplanned and irregular cash movements. This allowance is difficult to predict, Cabinet approved an amended allowance of 2.5% in the Treasury Management Strategy 2012/2013 at its meeting on 15 February 2012.

14. It is proposed that an allowance of 2.5% is continued for General Fund borrowing for 2018/2019 to 2020/2021, but this will be kept under review. The allowance provides for the possibility of additional borrowing during the year as a result of Government support for further schemes and provides headroom where the projection proves too optimistic (payments made earlier or receipt of income delayed against that forecast).

Prudential and Treasury Indicators for 2018/2019, 2019/2020 & 2020/2021

15. There is no allowance in respect of HRA borrowing as it is capped and, therefore, cannot be exceeded.

Authorised Limit	2018/2019 £million	2019/2020 £million	2020/2021 £million
General Fund	447.5	444.1	443.1
HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**570.6**	**567.5**	**566.5**



Treasury Management Indicators for Debt

16. 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 / improve performance.

Upper Limits on Variable Interest Rate Exposure

17. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Prudential and Treasury Indicators for 2018/2019, 2019/2020 & 2020/2021

Upper Limits on Fixed Interest Rate Exposure

18. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

Maturity Structure of Borrowing

19. 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.

20. In order to protect the Council from the above interest rate risks and to safeguard the continuity in treasury management financing costs, the following limits have been adopted.

	2018/2019	2019/2020	2020/2021
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	48	52	52
Maturity structure of fixed interest rate borrowing 2018/2019			
		Lower	**Upper**
Under 12 months		0	25
12 months to 2 years		0	25
2 years to 5 years		0	45
5 years to 10 years		0	75
10 years and above		0	100

21. In addition to the indicators (above) it is considered prudent that, under normal circumstances, no more than 15% of long term loans, excluding LOBO loans, should fall due for repayment within any one financial year and 25% in the case of LOBO loans, where maturity is deemed to be the "next call option date".

Appendix B

Annual Investment Strategy 2018/2019

Investment Policy

1. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

2. The Council will aim to achieve the optimum return on investments commensurate with high levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

3. In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enable diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

4. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

5. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

6. Investment instruments identified for use in the financial year are listed in Appendix C under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

7. All Council investments will be in sterling. This will avoid foreign exchange rate risk.

Annual Investment Strategy 2018/2019

Creditworthiness Policy

8. The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are 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.

9. The above 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 Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands

Colour	**Maximum Investment**
Yellow	5 years
Dark Pink	5 years (for ultra-short dated bond funds with a credit score of 1.25)
Light Pink	5 years (for ultra-short dated bond funds with a credit score of 1.5)
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

10. Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

Annual Investment Strategy 2018/2019

11. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

    - if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
    - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

12. Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Minimum Requirements for High Credit Quality

13. In accordance with the DCLG Guidance on Local Government Investments in respect of selection of counterparties with whom investments are placed, Wiltshire Council will comply with the minimum requirements below.

14. Credit ratings will be those issued by Fitch Ratings Ltd in respect of individual financial institutions (as shown below, where F1+ is the highest short term rating and AAA the highest long term rating). An exception is made in respect of money market funds, as shown below, where a different overall AAA rating is the highest.

15. The minimum requirements for high credit quality, by type of institution, are as follows:

    - Banks incorporated inside the UK with a short term credit rating of at least F1 or Government backed and their subsidiaries;
    - Banks incorporated outside the UK with a short term credit rating of at least F1+ and a long term rating of A+;
    - UK building societies with a short term credit rating of at least F1 or Government backed;
    - All local authorities and public bodies (as defined in S23 of the Local Authorities Act 2003) (ratings are not issued for most of these bodies);
    - Multilateral development banks (as defined in SI2004 No. 534) with a short term credit rating of at least F1 and long term credit rating of AAA;

Annual Investment Strategy 2018/2019

- Money market funds, which have been awarded the highest possible rating (AAA) from at least one of the following credit rating agencies, Standard and Poor's, Moody's Investor Services Ltd or Fitch Ratings Ltd.; and subject to individual signed management agreements.

16. The minimum requirement for high credit quality relating to the viability rating from Fitch (one of the ratings agencies) has been removed this year, following advice from Link Asset Services. A viability rating is no longer issued for every counterparty regardless of their credit quality. The Council already utilises the creditworthiness service provided by Link Asset Services, and their sophisticated modelling approach takes account of a wide variety of credit checks (including a viability rating where issued), so there is no need to consider the viability rating as a separate check.

17. In addition to the above criteria, the following limits will be applied to the total cumulative investments placed with an individual institution (or group of institutions where there is common ownership)

Monetary Limit	**Counterparties**
Up to £15 million	UK incorporated banks with a long term credit rating of at least AA
	Overseas banks that have a long term credit rating of at least AA
	Multilateral development banks
	Local authorities and other public bodies
	Money market funds
Up to £12 million	Government backed UK banks and UK building societies and their subsidiaries
Up to £8 million	Other UK incorporated banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);
	Other overseas banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);
	UK Building societies with long term credit rating of at least A
	Government backed overseas banks and their subsidiaries

Annual Investment Strategy 2018/2019

Country Limits

18. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix D. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Investment Strategy

19. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months)

20. For its cash flow generated balances, the Council will seek to utilise its HSBC business reserve instant access account, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Investment Returns Expectations

21. Bank rate is forecast to stay flat at 0.50% until quarter 4 of 2018, and not to rise above 1.25% by quarter 1 of 2021. Bank rate forecasts for financial year ends are as follows:

Year	**Bank Base Rate**
2017/2018	0.50%
2018/2019	0.75%
2019/2020	1.00%
2020/2021	1.25%

22. The suggested budgeted investment earnings rates for returns on investments places for periods up to about 3 months during each financial year are as follows,

Year	**Budgeted Earnings Rate**
2017/2018	0.40%
2018/2019	0.60%
2019/2020	0.90%
2020/2021	1.25%
2021/2022	1.50%
2022/2023	1.75%
2023/2024	2.00%
Later Years	2.75%

Annual Investment Strategy 2018/2019

23. The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise, and how quickly the Brexit negotiations move forwards positively.

Investment Treasury Indicator and Limit

24. This investment treasury indicator limits the total funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for any unnecessary borrowing, and are based on the availability of funds after each year end.

25. The Council is asked to approve the treasury indicator and limit,

Maximum principal sums invested > 365 days		
2018/2019	**2019/2020**	**2020/2021**
£30m	£30m	£30m

Investment Risk Benchmarking

26. The Council will use an investment benchmark to assess the investment performance of its investment portfolio of the relevant LIBID rate (dependant on the average duration of the fund).

End of Year Investment Report

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

Treasury Management Practice (TMP) 1
Credit and Counterparty Risk

Specified Investments.

1. All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria.

Non-Specified Investments.

2. These are any investments which do not meet the specified investment criteria.

3. A variety of instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

4. The criteria, time limits and monetary limits applying to institutions or investment vehicles are as follows,

	Minimum credit criteria/ colour band	**Maximum maturity period**
Specified Investments		
DMADF – UK Government	N/A	6 months
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money Market Funds CNAV	AAA	Liquid
Money Market Funds LVAV	AAA	Liquid
Money Market Funds VNAV	AAA	Liquid
Ultra Short Dated Bonds (1.25)	AAA	
Ultra Short Dated Bonds (1.5)	AAA	
Local Authorities	N/A	
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	12 months 12 months 6 months 100 days Not for use
Certificates of Deposit or Corporate Bonds	Blue Orange Red Green No Colour	12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK sovereign rating	
Non-Specified Investments		
Term Deposits with Banks and Building Societies	Purple Yellow	2 years 5 years

Treasury Management Practice (TMP) 1
Credit and Counterparty Risk

UK Government Gilts	UK sovereign rating	50 years

5. The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

Accounting treatment of investments.

6. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher (the lowest rating from Fitch, Moody's and S&P is shown) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Rating	**Country**
AAA	Australia
	Canada
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
AA+	Finland
	Hong Kong
	U.S.A.
AA	Abu Dhabi (UAE)
	France
	U.K.
AA-	Belgium
	Qatar

Appendix E

Treasury Management Scheme of Delegation

Full Council

1. Receiving and reviewing reports on treasury management policies, practices and activities;
2. Budget consideration and approval;
3. Approval of annual strategy.

Cabinet

1. Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
2. Budget consideration and proposal;
3. Approval of the division of responsibilities;
4. Receiving and reviewing regular monitoring reports and acting on recommendations;

Scrutiny – Finance Task Group

1. Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

The Treasury Management Role of the Section 151 Officer

1. Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
2. Submitting regular treasury management policy reports;
3. Submitting budgets and budget variations;
4. Receiving and reviewing management information reports;
5. Reviewing the performance of the treasury management function;
6. Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
7. Approving the selection of external service providers and agreeing terms of appointment.
8. Ensuring the adequacy of internal audit, and liaising with external audit;
9. Recommending the appointment of external service providers.