



Discussion Paper

Treasury Management Strategy

2018/19 to 2027/28

Including:

Minimum Revenue Provision Policy 2018/19

1. Introduction

1.1 Background

1.1.1 The Council is required to operate a balanced budget, which means that cash raised through the year will meet cash expenditure. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.2 Another role of treasury management is to fund the Council's capital programme. The programme provides a guide to the borrowing needs of the Council and the planning of a longer term cash flow to ensure capital obligations are met. The management of long term cash may involve arranging short or long term loans or using longer term cash flow surpluses.

1.1.3 CIPFA defines treasury management as:

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

1.2 Reporting requirements

1.2.1 The Council is required to receive and approve, as a minimum, three reports each year. These reports are to be scrutinised by the Audit Committee before being recommended to Council.

1.2.2 The Treasury Management Strategy report will cover:

- the capital programme (including prudential indicators)

- a Minimum Revenue Provision (MRP) Policy
- the Treasury Management Strategy including treasury indicators; and
- an Investment Strategy

1.2.3 A mid-year Treasury Management Report will update members of the Audit Committee with the progress of the capital programme and amending prudential indicators as necessary.

1.2.4 Any revisions to the Treasury Strategy will need to be approved by Full Council.

1.2.5 An Annual Treasury Report will provide details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy presented alongside the Statement of Accounts.

1.3 Treasury Management Strategy for 2018/19

1.3.1 The strategy for 2018/19 will cover

- | | |
|---------------------------------------------------|--------------------------------------------|
| • Policy on use of external advisors | • Borrowing strategy |
| • Capital programme and the Prudential Indicators | • Policy on borrowing in advance of need |
| • MRP strategy and policy | • Debt rescheduling |
| • Current treasury position | • Investment strategy |
| • Treasury indicators | • Creditworthiness policy |
| • Interest rates | • Treasury Management Scheme of Delegation |

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance,

the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.4 Treasury Management Advisors

- 1.4.1 The Council uses Link Asset Services (previously Capita Asset Services), as its external treasury management advisors. This will be extended beyond the December 2017 expiry.
- 1.4.2 The Council recognises that responsibility for treasury management decisions remain with the organisation at all times and will ensure that undue reliance is not placed upon external advisors.
- 1.4.3 The Council 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.

1.5 Proposals to amend the CIPFA Treasury Management and Prudential Codes

- 1.5.1 CIPFA is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code. This review will particularly focus on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management. Although finalised revised codes are not expected until November at the earliest, local authorities may wish to consider writing a report on non-treasury investments to deal with such

purchases, their objectives, how they have been appraised, how they have been financed, and what powers were used to undertake these purchases. The Treasury Management Strategy (TMS) could then include a high-level summary of this report on non-treasury investments and refer members to it if they wish to see the detail.

- 1.5.2 N.B. All non-treasury investments and financial guarantees, loans etc are already required to be part of the TMS for Scottish authorities so this proposal would put English and Welsh authorities using a similar format.
- 1.5.3 CIPFA has also indicated in its draft proposals that they will be withdrawing the following prudential indicators which have caused confusion as to how to calculate them -
 - Incremental impact of capital investment decisions on council tax
 - Estimates of the ratio of financing costs as a percentage of net revenue stream for three years ahead
 - Actual ratio of financing costs to net revenue stream (after the year-end)
 - Q4 of the Prudential Code consultation questionnaire also questioned whether HRA indicators should be removed. This will not affect the Council as it is not an HRA Council.
- 1.5.4 The Council may wish to consider deleting the above indicators from the TMS, if writing the TMS report prior to CIPFA publishing its final proposals, although the Council suggest that these are quite important indicators and should be included as local indicators even if they are removed as required indicators.

1.6 CIPFA have also indicated that there will be a change to the requirement to report on investments for longer than 364 days to longer than 365 days. This change has been incorporated into Indicator 11 paragraph 4.7.19.

2. Capital Prudential Indicators 2018/19 to 2027/28

2.1.1 The Council's capital programme is the key driver of the treasury management activity. The output of the capital

programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

2.1.2 **Indicator 1 – Capital Expenditure** – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following nine financial years.

(1a) Capital Expenditure	2016/17 Actual	2017/18 Est.	2018/19 Est.	2019/20 Est.	2020/21 Est.	2021/22 Est.	2022/23 Est.	2023/24 Est.	2024/25 Est.	2025/26 Est.	2026/27 Est.	2027/28 Est.
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Governance												
People & Communities												
Resources												
Growth & Regeneration												
Invest to Save												
Total												
Financed by:												
Capital receipts												
Capital grants & contributions												
Net financing requirement												
Total												

- 2.2 The previous table summarises the capital expenditure which is shown in more detail in the Capital Strategy Annex One including how it will be funded either from grants, contributions, or capital receipts with the remaining 'net financing need for the year' to be sourced via borrowing. The capital receipts shown in the tables for future years relate to the return of the LAMS capital loan and Fletton Quays loan notes.
- 2.3 The Invest to Save schemes are included in the tables that detail total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings. Therefore the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.
- 2.4 **Indicator 2** – Capital Financing Requirement (CFR) – the underlying need to borrow for capital purposes is measured by the CFR. Useable reserves and working capital are the underlying resources available for investment. The current strategy is not to borrow for the full underlying need. Some
- 2.5 internal resources are used instead of external borrowing. The CFR is the total historic capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.
- 2.6 The main issue for the Council is that the Council does not pay off debt at the moment therefore as the Council continues to invest in the City the borrowing will increase.
- 2.7 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet following the IFRS conversion in 2010/11. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next ten financial years:

(2) Capital Financing Requirement	2016/17 Actual	2017/18 Est.	2018/19 Est.	2019/20 Est.	2020/21 Est.	2021/22 Est.	2022/23 Est.	2023/2 4Est.	2024/25 Est.	2025/26 Est.	2026/27 Est.	2027/28 Est.
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
CFR B/fwd												
Borrowing/Repayment												
Invest to Save*												
CFR C/fwd												
Movement in CFR												
Net financing requirement												
Less MRP & other financing												
Movement in CFR												

* The cost of borrowing associated with this scheme will be offset by the income generated in accordance with the approved business case (see comment in 2.3)

2.8 **Indicator 3** – Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in

Financing capital expenditure i.e. the net interest cost and the provision to repay debt.

2.9 **Indicator 4** – Actual and estimates of the incremental impact

2.11 This indicator is showing the incremental impact of capital

3) Ratio of financing costs to net revenue budget	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 4Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
Total ratio												

of capital investment decisions on council tax. The calculation of this indicator is based upon the estimated amount of the capital programme that is to be financed from borrowing.

investment decisions along with the MRP policy as contained in Section 3.

2.10 The calculation is based on the interest assumptions for borrowing and MRP charges that have been included in the previous and this MTFS for the capital financing budget.

2.12 This indicator shows the incremental impact on the council tax base.

(4) Incremental impact of capital investment decisions on Council Tax	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
Incremental change in capital financing budget between MTFS's on Band D Council Tax (£)												

3. Minimum Revenue Provision (MRP) Policy

- 3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).
- 3.2. CLG Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.
- 3.3. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.
- 3.4. The Council intends to make secured loans to third parties. These loans are only made after the Council's formal decision making process has been followed, which includes formal approval by the Interim Corporate Director: Resources. As part of the formal decision to grant the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment. The Council have approved the secured loans to three third parties which are Axiom Housing Association (Council - 8 October 2014), ECS Peterborough 1 LLP (Council - 17 December 2014) and the Housing Joint Venture (Jul 2016). The Council has held some preliminary discussions with Peterborough Regional College (PRC) regarding the possibility of the Council lending to them to invest in new facilities. These discussions are at a very early stage, but it is recommended that PRC are added to the list of organisations the Council can make secured loans to. This does not commit the Council to making such a loan, it simply means that the Council can consider this during the year. This could only proceed following an appropriate executive decision.
- 3.5. The Council participates in the Local Authority Mortgage Scheme (LAMS). During 2011/12 the Council deposited £1m with Lloyds, which was repaid in December 2016 and a further £1m during 2013/14 which is due to be repaid in 2018/19. Such deposits are treated as capital expenditure, as a loan to a third party. The CFR increased by the total of these indemnities. Operation of the Scheme sees these deposits returned in full at maturity, a period of five years, with interest paid annually. Once the deposit matures, and funds are returned to the Council, the funds are classed as a capital receipt (as it is a loan) and the CFR will reduce accordingly. As this is a temporary five year arrangement and the funds are anticipated to be returned in full, there is no MRP application.
- 3.6. Repayments for PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.
- 3.7. Below is a table summarising the MRP Policy adopted in 2016/17.

Summary of the MRP Policy Adopted 2016/17

Age of Debt	Previous Method	Method Adopted
Pre 2007/08 debt (ie debt up to 31.03.2007)	Charged at historic 4%	Change the length over which the debt is paid – from budgeted 25 years (4%) to 42 years (2.38% - based on the actual weighted average of the Councils assets, so a direct link to asset base)
		Using the 2.38% in an annuity calculation rather than an equal instalment or reducing balance method
Supported Borrowing post 2007/08		As per above points - this debt is currently calculated on the same 4% basis
Unsupported borrowing 2007/08 & 2008/09	Charged in relation to asset life on equal instalment method	There are two years of debt that are calculated using the old equal instalment method. The Council moved from this methodology in 2009/10. Proposal to amend these elements of the calculation so that repayment of this debt to be based on annuity method also.
Unsupported borrowing Post 2008/09	Charged in relation to asset life on annuity method	Continue to use existing annuity methodology based on actual life of asset to which borrowing has been taken for (this is net of Invest To Save schemes).
Private Finance Initiative (PFI) - Finance Lease	Charged derived from using the PFI model	Change the length over which the debt is paid from 30 years as per contract life to 39 years per asset life. As part of this change in life apply on an annuity method calculation.
Other Finance Leases	Charged in relation to asset life on annuity method	Continue to use existing annuity methodology based on actual life of asset to which borrowing has been taken for.

4. Treasury Management Strategy

4.1. Treasury Management Policy

4.1.1. The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's service requirements. This will involve both the management of cash flow and, where the capital programme requires, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

4.1.2. The Council's primary treasury management objectives are:

- a) to invest available cash balances with a number of high quality investment counterparties (see 4.7.13) over a Spread of maturity dates in accordance with the Council's lending list;
- b) to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible; and
- c) To seek to reschedule debt at the optimum time.

(5) Gross debt & capital financing requirement	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/2 4Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
External Borrowing												
Market Borrowing												
Repayment of borrowing												
Expected change in borrowing												
Other long-term liabilities												
Gross Debt at 31 March												
CFR												
% of Gross Debt to CFR												

4.2 Current Treasury Position

4.2.1 **Indicator 5** - The Council's treasury position at 31 March 2017, with estimates for future years, are summarised below.

The table below shows the actual external borrowing (Gross Debt) against the CFR.

4.2.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short term, exceed the total of the CFR in the year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

4.2.3 The Interim Corporate Director: Resources reports that the Council complied with this prudential indicator in the current

(6) Operational Boundary	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 4Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
Borrowing												
Other long term liabilities												
Total												

4.2.5 **Indicator 7** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by full Council.

4.2.6 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an

Year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this medium term financial strategy (MTFS).

4.2.4 **Indicator 6** - The Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded.

option to control either the total of all Council's plans, or those of a specific Council, although this power has not yet been exercised.

4.2.7 The Council is asked to approved the following Authorised limit:

(7) Authorised Limit	2016/17 Actual	2017/18 Est.	2018/19 Est.	2019/20 Est.	2020/21 Est.	2021/22 Est.	2022/23 Est.	2023/24 4Est.	2024/25 Est.	2025/26 Est.	2026/27 Est.	2027/28 Est.

	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Borrowing												
Other long term liabilities												
Total												

4.3 Prospects for Interest Rates

4.3.1 The Council utilises the treasury services of Link Asset Services and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions. The Link Asset Services Forecast

for bank base rate (as at August 2017) and PWLB new borrowing (as at November 2017) is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment):

Interest Rate (All rates shown as %)	Now	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20
Bank Rate View														
5yr PWLB Rate														
10yr PWLB Rate														
25yr PWLB Rate														
50yr PWLB Rate														
Budget Assumption														

4.3.2 The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate,

during the period 1 November 2017 to 31 October 2018. This results in the Council being able to benefit from reduced

interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

- 4.3.3 The MTFS assumes borrowing is taken at the 50 year period with an average taken across the quarters for that year but then adjusted with a range of borrowing periods and associated interest rates. The Chief Finance Officer believes this prudent as it mitigates some of the risk of PWLB rate rise.
- 4.3.4 Link Asset Services undertook its last review of interest rate forecasts on 7 November and will have gentle increases in Bank Rate during 2018 and onwards.
- 4.3.5 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

4.3.6 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. Has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

4.3.7 From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geopolitical, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

4.3.8 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

4.3.9 The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

4.3.10 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea., but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The October 2017 Austrian general election has resulted in a strongly anti-immigrant coalition government. This could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

4.3.11 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its initial pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in the Fed Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

4.3.12 **Investment and Borrowing Rates**

4.3.13 Investment returns are likely to remain low during 2018/19 but will be on a rising trend over the next few years.

4.3.14 Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate

increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

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

4.4 Borrowing Strategy

4.4.1 The Council is currently maintaining an under-borrowed position, where CFR balance is greater than gross debt, see table 4.2. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.4.2 The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding
- Specific Schemes – eg School Extensions
- Rolling Capital Projects eg Enhancing current assets

4.4.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Interim Corporate Director: Resources will

monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.4.4 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

4.4.5 The MTFS is based on the following borrowing assumptions for the next ten years. However, the borrowing strategy is under constant review throughout the year as a result to changes in interest rates and borrowing opportunities. The proposed strategy for 2018/19 financial year is:

- a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.
- b) If 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.
- c) If there was a significant risk of a much sharper rise in long and short term rates than currently forecast, perhaps rising 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.
- d) Loans will primarily be arranged from the PWLB and other Local Authorities.
- e) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

- f) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

4.5 New Borrowing Approaches to Be Considered:

- a) To achieve an even spread of loan maturities so that there is not an exceptional borrowing requirement in any future year. Rebalancing the current uneven profile will potentially allow interest savings given the current yield curve. Currently under 10 year money and over 35 year money is historically at a low interest cost.
- b) Maturing long term debt is replaced by new borrowing. To achieve long term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.
- c) The use of Capital receipts or S106 receipts to make minimum revenue provision is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.
- d) Interest rates are liable to change. In the event of significant changes the Council seeks to avoid an increase revenue cost on its debt charges.

- g) The Treasury Management Strategy is based on the planned Capital Programme to calculate the borrowing requirement. Typically the Council does not spend at the planned level in any financial year. A review is being undertaken to put the Capital Programme on a more realistic footing.
- h) Link Asset Services have a product that will allow the Council to borrow from the market at current interest rates with a small premium but will not receive the funds until it is required - 'forward borrow'. Once the capital programme for the next three years is finished a realistic view will be taken of low interest rates now to borrow early to fund the capital borrowing needed.

4.5.1 There are three debt treasury indicators which ensure the activity of the treasury function remains within certain limits. This manages risk and reduces the impact of any adverse movement in interest rates. The indicators are:

- **Indicator 8** – Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.
- **Indicator 9** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 4Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
(8) Limits on fixed interest rates based on net debt												
% of fixed interest rate exposure												
(9) Limits on variable interest rates based on net debt												
% of variable interest rate exposure												

- **Indicator 10** - Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

(10) Maturity Structure of borrowing	Upper Limit
Under 12 months	40%
12 months to 2 years	40%
2 years to 5 years	80%
5 years to 10 years	80%
10 years and above	100%

4.6 Policy on Borrowing in Advance of Need (Future Capital Expenditure)

- 4.6.1 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. However, at any time the Council may obtain a loan or other financing at what are considered advantageous opportunities in anticipation of future capital expenditure, which can be invested temporarily. The Council may also borrow in the day to day management of its cash flow operations or as an alternative to redeeming higher yielding investments.
- 4.6.2 Any decision to borrow in advance of need will be within

forward approved CFR estimates, and will be considered carefully to ensure value for money.

- 4.6.3 The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.
- 4.6.4 The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFs.
- 4.6.5 Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.7 Debt Rescheduling on Existing Debt Portfolio

- 4.7.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates there may be potential to generate savings by switching from the existing 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). Debt rescheduling will only be carried out on current debt portfolio as future borrowing will be carried out as per this strategy and over shorter periods of time.
- 4.7.2 The reasons for rescheduling will include:
 - the generation of cash savings and/or discounted cash flow savings;
 - helping to fulfil the treasury strategy;
 - Enhance the balance of the debt portfolio.

- 4.7.3 All rescheduling will be reported to the Audit Committee at the earliest opportunity.

4.8 Municipal Bond Agency

- 4.8.1 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLb). This Authority may make use of this new source of borrowing as and when appropriate.

4.7 Annual Investment Strategy – Annual Investment Policy

- 4.7.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 4.7.2 The Council's investment priorities are the security of capital and the liquidity of investments. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- 4.7.3 Investment instruments identified for use in the financial year are listed in Appendix 1 under the 'Specified' and 'Non-Specified' Investment categories. Counterparty limits will be as set through the Council's Treasury Management Practices.
- 4.7.4 Subject to appropriate due diligence, security and rate of return the council will lend to providers of Solar Energy facilities.

4.7.5 **Investment Counterparty Selection Criteria and Investment Strategy**

4.7.6 As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g. a grant received in advance of spend or from borrowing in advance of need. Therefore investment activity will be kept to a minimum.

4.7.7 However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. After this main principle the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.7.8 The Interim Corporate Director: Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

4.7.9 The Council's minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds,

which are used for short term investments only, will use the Short Term credit ratings in the table shown within 4.8.13 if an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

4.7.10 In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Asset Services which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Asset Services monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades.

4.7.11 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link Asset Services.

- If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria it will be removed from the Council's lending list immediately.
- In addition to the use of credit ratings the Council will be advised of information in movement in CDS's against the iTraxx (brand name for the group of credit default swap index products) benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

4.7.12 Sole reliance will not be placed on the use of Link Asset Service's advice. The Council will also use market data, market information, information on government support for banks and the credit ratings of that government support.

4.7.13 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, follows:

- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.
- All of the above would be subject to continuous credit rating reviews, specifically with regards to the credit rating methodology changes noted in 4.7.1.

4.7.14 Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 4.7.13 then the following strategy will be followed:

- With regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, no action will be taken with regards to funds held with Barclays, ie maximum of £5m in the call account
- If two or more credit rating agencies reduce their ratings only, as the Council will still require to use the Barclays accounts for transactional purposes, a maximum balance of £500k will be left overnight to prevent the account becoming overdrawn and incurring overdraft fees
- Seek advice from Link Asset Services

- The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point above.

The above approach has been developed following consideration of:

- that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity
- the significant impact, resource requirement, and risk exposure of changing bank provider
- the possible state and stability of the banking sector and viable alternative suppliers
- Local Authority Mortgage Scheme. Under this scheme the Council had placed funds of £2m with Lloyds Bank for a period of five years. The first tranche of £1m has matured and been returned to the Council, leaving £1m still on deposit. This is classified as being an indemnity arrangement and therefore accounted for as a capital expenditure transaction, rather than a treasury management investment. Therefore LAMS is outside the Specified/Non specified categories but is included in this Strategy for completeness. Any other counterparty used will fall outside the Specified/Non specified categories as per the reason stated above. Therefore the minimum credit criteria need not apply to the LAMS scheme.
- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd).

These banks can be included if they continue to be part nationalised and / or they meet the ratings below.

- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.

Agency	Short Term	Long Term
Fitch	F1	A
Moody's	P-1	Aa
Standard & Poor's	A-1	A

- Building Societies – if they meet the ratings above
- Money Market Funds - AAA rated by Fitch
- Cambridgeshire and Peterborough Combined Authority
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However this arrangement will be closely monitored to ensure funds continue to be transferred daily.

4.7.15 The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Appendix 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by the Interim Corporate Director: Resources. Approval will also be required if any new counterparties are added to the lending list.

4.7.16 Link Asset Services approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Capita Asset Services Banding	Description
Blue	1 year (only applies to nationalised / semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	3 months
No colour	The Council will not invest with these institutions

11) Interest Rate Exposure (Upper Limits)	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
Principal sums invested > 365 days												
Base Rate Forecast												

4.7.17 The proposed criteria for Specified and Non-Specified investments are shown in Appendix 1 for approval. During this time of significant economic uncertainty due regard will be taken of the selection criteria outlined in 4.7.13, when using the options outlined in Appendix 1.

4.7.18 Investment returns expectations - Bank Base Rate is forecast to remain unchanged at 0.25% before starting to rise from 2019/20. Bank Rate forecasts for financial year ends are:

4.7.19 **Indicator 11** - Upper limit for total principal sums invested for over 365 days. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment, and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear. These upper limits are to provide approved flexibility for future LAMS contributions.

4.7.20 At the end of the year, the Council will report on its investment activity as part of its Annual Treasury Report to the Audit Committee.

4.8 Peterborough's Growth Delivery Project

Financial Year	Bank Base Rate	Forecast	
2018/19	0.63%	There is an upside risk to these forecasts (i.e. if increases in Bank Rate occurs sooner than forecast) if economic growth remains strong and unemployment falls faster than expected. However there is also a downside risk if the pace of growth falls back particularly if the Bank of England inflation forecasts for the rate of unemployment prove to be too optimistic.	4.7.21 The Interim
2019/20	0.88%		
2020/21	1.19%		
2021/22	1.19%		

Corporate Director: Resources may appoint external fund managers to access markets not available to the in-house treasury team, diversify the investment portfolio and to optimise investment income returns. Fund Managers will only be used if the Interim Corporate Director: Resources is satisfied the risk of loss is minimised and they can provide material out-performance when compared against comparative cash benchmarks. Fund Managers must comply with the Annual Investment Strategy.

A Joint Venture, Limited Liability Partnership (JV LLP) 50:50 owned and controlled by the Council and Lucent Peterborough Partnership SARL are working to create

commercially viable Project Plans. Once a Project Plan is approved by the JV LLP board it will create a Special Purpose Vehicle (SPV) to oversee the plan implementation.

- 4.8.1 As projects are developed the Council will sell sites previously earmarked for disposal at their current market value to the JV LLP for development. The Council will receive Loan Notes from the JV LLP in consideration. The Council may also receive loan notes in consideration for any other costs it incurs on behalf the JV LLP.
- 4.8.2 The first scheme, the redevelopment of the Fletton Quays site, is underway. The Council expects to receive the return on this scheme in 2018/19.

4.9 Treasury Management Scheme of Delegation

- 4.9.1 The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of Annual Strategy.

Audit Committee / S151 Officer (Interim Corporate Director: Resources)

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.

- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Section 151 Officer (Executive Director Resources) / Service Director Financial Services / Head of Corporate Finance

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management 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.
- Recommending the appointment of external service advisors.

Specified and Non-Specified Investments**APPENDIX 1****Specified Investment:**

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short term or easy access to funds

- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating (see 4.7.9)

APPROVED "SPECIFIED" INVESTMENTS				
Investment Type	Maximum Maturity period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Debt Management Agency Deposit Facility	Currently only accepts deposits up to 6 months duration.	UK Government backed	N/A	75
Term deposits with UK Government & Local Authorities	6 months	Sovereign risk / high security although not credit rated	100	20
Term deposits & Certificates of Deposit with Banks Group 1	6 months	Minimum ratings - F1(Fitch - short term) AAA (long term)	100	15
UK Government & Local Authority Stock Issues	6 months	Sovereign risk / high security although not credit rated	100	20
Term deposits & Certificates of Deposit with Banks Group 2	6 months	Minimum ratings – F1 (Fitch-short term) A (long term)	50	10
Deposit accounts with regulated UK building societies	6 months	Minimum ratings - F1 (Fitch short term) A (long term)	50	10
Money Market Funds	Repayable on call, without notice.	Minimum rating – AAA (Fitch)	50	10
Commercial Paper (short term obligations issued by banks, corporations & other issuers).	6 months	Minimum short term rating - F1 (Fitch) (Held by custodian)	10	10

APPROVED "SPECIFIED" INVESTMENTS				
Investment Type	Maximum Maturity period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Gilt & Bond Funds (open ended mutual funds investing in Gov. & corporate bonds)	Highly liquid, may be sold at any time.	Minimum rating - AAA-(Fitch, S&P A-1 etc.)	10	10
Reverse Gilt Repos (Gilts bought with commitment to sell on a specified date or on call, at agreed price)	6 months	UK Government backed (Held by custodian)	10	10
Treasury Bills	Maturities of up to 6 months Issued through a bidding process at a discount to face value	UK Government backed (Held by custodian)	10	10
Bonds issued by a financial institution guaranteed by UK Government	6 months	UK Government backed (Held by custodian)	10	10
Bonds issued by multilateral development banks	6 months	Minimum rating – AAA (Fitch, S&P A-1etc)	10	10

Non-Specified Investment:

- With the same institutions classified as “specified” investments but have maturity dates in excess of one year, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time.

APPROVED "NON - SPECIFIED" INVESTMENTS				
Investment Type	Repayable / Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Term deposits with UK Government & Local Authorities	Maturities of 1 - 5 years	Sovereign risk / high security although not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	Maturities of 1 - 5 years Certificates of Deposit are tradable	Minimum ratings - F1(Fitch - short term) AAA (long term)	10	10
UK Government & Local Authority Stock Issues	Maturities of 1 - 10 years but tradable	Sovereign risk / high security although not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	Maturities of 1 - 5 years Certificates of Deposit are tradable	Minimum ratings – F1 (Fitch-short term) A (long term)	20	10
Deposit accounts with regulated UK building societies	Maturities of 1 – 5 years	Minimum ratings - F1 (Fitch short term) A (long term)	5	5
Foreign Government Stock Issues (priced in £ Sterling)	Maturities of 1 - 10 years but tradable	Minimum rating – AAA (Fitch, S&P A-1etc) (Held by custodian)	5	5
Term deposits with UK building societies without formal credit ratings	Maturities of up to 1 year	Financial position assessed by Interim Corporate Director: Resources	5	5
Bonds issued by a financial institution	Maturities of 1 - 10 years	UK Government backed Minimum rating –	5	5

APPROVED "NON - SPECIFIED" INVESTMENTS				
Investment Type	Repayable / Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
guaranteed by UK Government	but tradable	AAA (Fitch, S&P etc.)		
Bonds issued by multilateral development banks	Maturities of 1 - 10 years but tradable	Minimum rating - AAA (Fitch, S&P A-1etc)	5	5
Floating Rate Notes (fixed term but interest rate varies quarterly)	Maturities of 1 - 5 years but tradable	Financial position assessed by Interim Corporate Director: Resources. Requires capital or revenue financing as share or loan capital.	5	5
Bonds issued by corporate issuers other than sovereign bonds	Maturities of 1 - 10 years but tradable	Minimum rating – AAA (Fitch, S&P A-1etc) Requires capital or revenue financing as share or loan capital	5	5

Explanation of Credit Ratings

APPENDIX 2

Agency	Short Term	Long Term
Fitch	F1 -Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a “+” may be added to denote any exceptionally strong credit feature.	A -High credit quality. ‘A’ ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
Moody’s	P-1 -superior ability to repay short-term debt obligations	Aa -high quality and are subject to very low credit risk
Standard & Poor’s	A-1 -The obligor’s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor’s capacity to meet its financial commitment on these obligations is extremely strong.	A -more susceptible to the adverse effects of changes in circumstances and economic conditions. However the obligor’s capacity to meet its financial commitment on the obligation is still strong.

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