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Executive Decision Report

Date of Leadership Team meeting, Lead Member meeting or (in the case of individual Lead Member decisions) the earliest date the decision will be taken	Leadership Team - 26 February 2018 Forward Plan ref: 05170/18/K/A Leadership Team Portfolio: Lead Member for Corporate Services	THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Report title (decision subject)	ANNUAL TREASURY STRATEGY 2018-19	
Reporting officer	Chris Buss, Director of Finance	
Key decision	Yes	
Access to information classification	Public	

1. EXECUTIVE SUMMARY

1.1 The Local Government Act 2003 requires the Council to:

- set out a statement of its treasury management strategy for borrowing, having regard to the Prudential Code and setting out Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable
- prepare an Annual Investment Strategy, setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Treasury Management Strategy must have regard to guidance issued by CLG and must be approved by the full Council

1.2 This report sets out the Council's proposed Treasury Management Strategy and Annual Investment Strategy for 2018-19, and authorises the Director of Finance to deliver the treasury management activities set out in the report.

2 RECOMMENDATIONS

2.1 The Leadership Team is asked to:

- Recommend that the Council adopts the revised CIPFA Treasury Management in the Public Services Code of Practice by readopting the four clauses and approving the Treasury Management Policy Statement as set out in **Appendix 1**

- recommend that the Council approve the Annual Treasury Strategy, incorporating the Annual Investment Strategy for 2018-19:
    a) the proposed Prudential Indicators which limit treasury management activity as set out in **Appendix 2** of the report;
    b) the revised Minimum Revenue Provision (MRP) Policy for 2017-18 with immediate effect and the Policy for 2018-19 as set out in **Appendix 3**;
    c) the proposed use of investment instruments as set out in section 9;
    d) the use of specified and non-specified investments as set out in **Appendix 4**;
    e) the governance arrangements as set out in **Appendix 6**

3 REASONS FOR DECISION

3.1 To comply with the Local Government Act 2003, other regulations and guidance and to ensure that the Council's borrowing and investment plans are prudent, affordable and sustainable and comply with statutory requirements.

4. BACKGROUND

4.1 The Council is required to set a balanced budget, which means that income raised during the year is budgeted to meet expenditure. Part of the treasury management operation is to ensure that:

- the Council's capital programme and corporate investment plans are adequately funded;
- cash flow is adequately planned, with cash being available when needed to discharge the Council's legal obligations and deliver Council services; and
- surplus monies are invested to achieve the optimum returns on investments subject to a very high level of security of capital and a level of liquidity. The risk appetite of the Council is very low to give priority to the security of its investments.

4.2 This strategy has been produced in accordance with the Chartered Institute of Public Finance (CIPFA) Treasury Management Code of Practice. The Code was revised and reissued in December 2017.

4.3 The 2017 Code has made no changes to the Treasury Management Policy Statement or the clauses recommended for adoption by CIPFA, which were originally adopted when the Code was last revised in March 2012.

4.4 The Treasury Management Policy Statement and the four clauses which CIPFA recommend Councils adopt are set out in **Appendix 1**

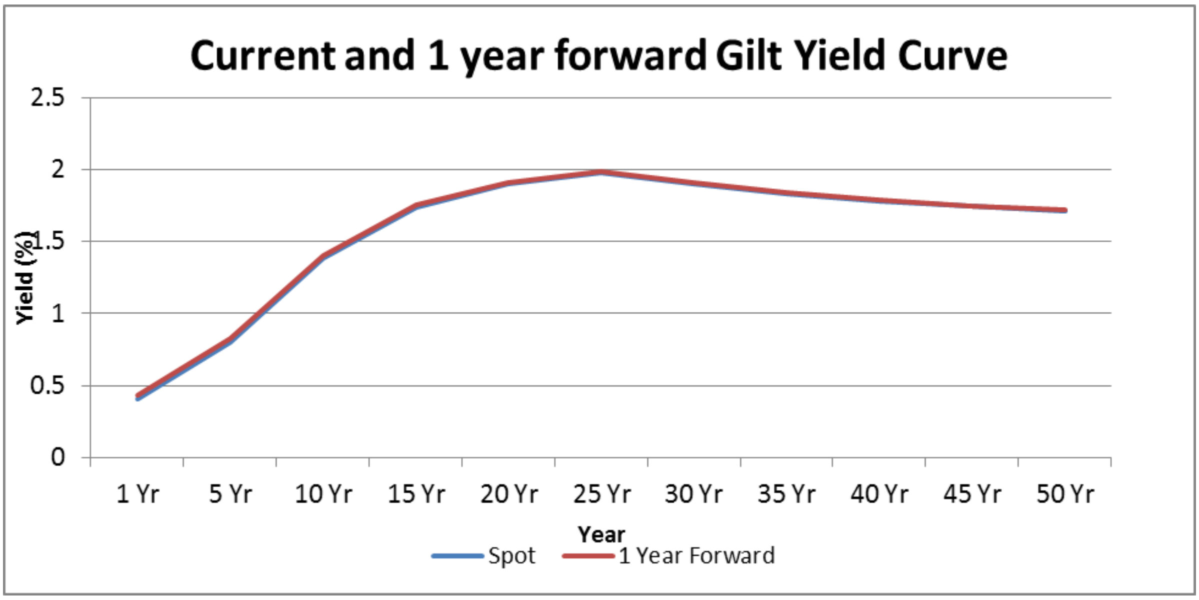
5. MARKET BACKGROUND

5.1 Following strong economic growth in 2016, Gross Domestic Product (GDP) in the United Kingdom (UK) has been weaker in 2017, with quarter 1 returning 2 per cent year on year, quarter 2 returning 1.7 per cent, with a further fall to 1.6 per cent in quarter 3. One reason for this has been the increase in inflation, caused by the devaluation of sterling after the exit vote in the European Union Referendum, thus increasing the cost of imports.

5.2 The Bank of England Inflation Reports in 2017 predict the Consumer Prices Index (CPI) inflation rate to peak at just over 3 per cent, before falling back to the target rate of 2 per cent in two years' time.

5.3 At the meeting on 2 November 2017 the Monetary Policy Committee (MPC) increased bank rate by 0.25 per cent to 0.50 per cent. Forward guidance indicated that bank rate is expected to rise twice more in the next three years to reach 1 per cent by 2020.

5.4 The graph below shows the current UK Gilt curve, together with the one-year forward Gilt curve (i.e. current market expectations for Gilt rates in twelve months' time). The curves overlay one another showing the market expectation is that rates will remain at current levels over the next year.



6. BORROWING STRATEGY

6.1 The Council's need to borrow is driven by:

- the financing needs of the three-year capital programme including Grenfell related expenditure;
- the amount of external debt that will mature and need refinancing; and
- any day to day temporary borrowing for short term cash flow purposes.

6.2 The issues which have been taken into account in determining the borrowing strategy are:

- the Capital Programme 2018-19 to 2020-21 proposed to Council;
- the current level of external debt compared to the Council's Capital Financing Requirement;
- interest rate risks including the balance between variable and fixed rates; and
- the desirability of a smooth debt maturity profile, to limit exposure to adverse interest rates in any one period.

6.3 The Prudential Code requires that any borrowing and investment decisions are taken in the light of capital spending plans and consideration of how that proposed capital expenditure will be purchased. The Council's capital expenditure plans are set out in the Capital Strategy 2018-19 reported elsewhere on the Committee's agenda.

6.4 The table below summarises the Council's expenditure plans and shows the current expectations regarding the funding:

	2017-18 £'000	2018-19 £'000	2019-20 £'000	Future Years Forecast £'000
Expenditure				
General Fund	252,935	106,563	46,131	11,010
HRA	17,651	33,540	44,200	90,000
TOTAL	**270,586**	**140,103**	**90,331**	**101,010**
Funding				
<u>General Fund</u>				
Council Contributions	(152,707)	(31,016)	(2,775)	(850)
Borrowing	(100,228)	(75,547)	(43,356)	(10,160)
Total General Fund Resources	**(252,935)**	**(106,563)**	**(46,131)**	**(11,010)**
<u>HRA</u>				
Contributions	(17,651)	(23,540)	(14,200)	(10,000)
Borrowing		(10,000)	(30,000)	(80,000)
Total HRA Resources	**(17,651)**	**(33,540)**	**(44,200)**	**(90,000)**
Total Funding	**(270,586)**	**(140,103)**	**(90,331)**	**(101,010)**

6.5 The Council has traditionally funded capital investment from the sale of assets (capital receipts), supplemented by revenue contributions, grants and developer contributions (Section 106 and CIL). The requirement to borrow and the associated additional revenue expenditure to meet the cost of such borrowing has been avoided. Going forward, the Council will need to borrow to meet both the requirements of the Grenfell replacement programme and investment in owned assets.

6.6 The Prudential Code requires the Council set limits to manage its borrowing risks. These are set out in **Appendix 2**.

Minimum Revenue Provision (MRP) Policy

6.7 Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is how capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

6.8 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulation 2003, as amended (Statutory Instrument (SI) 3146/2003) requires full Council to approve a MRP statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. The Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

6.9 The impact of the requirements for the Council to undertake borrowing and accounting treatments associated with the Grenfell Recovery process, as agreed with the DCLG, have required a revised Minimum Revenue Provision Policy to be produced for 2017-18 this together with the proposed policy for 2018-19 is set out in **Appendix 3**

External Borrowing Strategy

6.10 The Council's gross debt position is forecast to be as follows:

£'000

	2017-18	2018-19	2019-20	2020-21
Debt as at 1 April	133,864	226,535	228,846	278,837
Expected Change in Debt in year	92,491	2,491	49,991	78,530
Gross Debt 31 March	226,355	228,846	278,837	357,407
Capital Financing Requirement	239,312	248,478	302,677	391,458
Under / (over) borrowing	12,958	19,672	23,870	40,051

6.11 The Council will take opportunities to secure long-term finance for long-term assets and maturing debt as appropriate market opportunities present themselves. As interest rate prospects are updated over the year the assessment of good value opportunities will be adjusted. This will apply to both the HRA and the General Fund.

6.12 Where possible and/or necessary, the General Fund will continue to use cash surpluses to support the HRA capital programme. In recognition of this, the HRA will pay interest to the General Fund at a rate equivalent to the higher of the average Public Works Loans Board (PWLB) variable three-month rate or the average rate earned by the Council on its external cash investments over the year.

Borrowing in advance of need

6.13 The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting) (England) Regulation 2003, as amended. Any decision to borrow in advance will be within forward approved Capital Finance Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.14 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the year.

Debt Rescheduling

6.15 As short term borrowing rates will be considerably cheaper than long term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in conjunction with the cost of debt repayment (premiums incurred)

6.16 The Council will restructure its debt only if there is a genuine economic benefit to the Council and its taxpayers

6.17 The Localism Act gives Councils a general power of competence allowing local authorities ‘the power to do anything that individuals generally may do’[1]. The Treasury Management Code of Practice recognises that, assuming the relevant legal advice has been obtained, some Councils may wish to use this authority to explore the use of derivatives to manage external debt. This may be of use where more complicated forms of borrowing are undertaken; but derivatives are not considered suitable tools for the Royal Borough at this time.

6.18 The Council will not use derivatives as part of its management of the external debt or investment portfolio

ANNUAL INVESTMENT STRATEGY

7 Investment Objectives

7.1 The Council’s investment priorities are to achieve the optimum returns on investments subject to a very high level of security of capital and a level of liquidity in its investments, appropriate to the Council’s projected need for funds over time. The risk appetite of this Council is low in order to give priority to security of its investments.

8 Investment Background

8.1 At 31 December 2017, the Council’s cash investments were £289 million. These are used to fund day to day service operations, support capital funding requirements and payments for services accrued but unpaid

8.2 The current operating limits for in-house cash investments, as agreed as part of the 2017-18 Strategy review allows: -

- investments in UK and overseas financial institutions with long term credit ratings of A or above;
- no more than 50 per cent of the portfolio can be placed with other local authorities meeting the Council’s local authority lending criteria;
- the purchase of government securities on a buy to hold basis with maturity dates of up to two years;
- no more than £50 million per institution to be invested in corporate bonds or commercial paper with up to one-year maturity in institutions with a UK Government guarantee;
- no more than £50 million to be invested in European Investment Bank (EIB) bonds with up to one-year maturity;
- no more than £100 million be invested with Money Market Funds; and
- the balance to be deposited with the government Debt Management Office (DMO).

[1] Localism Act 2011 Part 1, Chapter 1

8.3 As at 31 December 2017, 40 per cent of funds are held with the DMO, 36 per cent with other local authorities, 5 per cent in Transport for London commercial paper, 16 per cent in money market funds and 3 per cent in the named banks

9 Investment Strategy Execution

Investment Instruments

9.1 Councils can invest in a wide range of instruments and there is a complex framework to regulate decisions on the amount of risk that a council decides to take. CLG guidance categorises investments between 'specified' and 'non-specified' as defined in **Appendix 4**.

9.2 The investment instruments proposed and counterparty limits for use in 2018-19 are listed in **Appendix 4.** Further constraints can be placed on the use of counterparties at any time.

9.3 The principle change in the proposal for 2018-19 to that agreed in the 2017-18 Strategy Review is an increase in duration for certain categories of investment. This will allow the Council to benefit from higher yields on core cash investments. Any such investments will be subject to the constraints set out in 9.5 and 9.6 below.

9.4 It is also proposed to increase the total amount that can be held in money market funds to £150 million, with no more that £30 million to be held in any one fund.

9.5 Any investment which does not meet the criteria set out in Appendix 3(c) i-iv is classified as non-specified. The Council will hold no more than one-third of the estimated investment portfolio at the year-end in non-specified investments. At present all the Council's investments meet the specified criteria.

9.6 The limit for investments in long term illiquid assets is incorporated in the limit for non-specified investments.

9.7 It is not proposed to use property for Treasury investments. This category of investment can increase the risk to capital and is particularly illiquid. Property must be treated as capital expenditure and is therefore less flexible as a treasury management tool. This does not prevent the Council purchasing property for operational or economic development/regeneration purposes as part of its capital programme.

9.8 Within the overall criteria, the Director of Finance is responsible for constructing a lending list of acceptable institutions under the Council's Financial Procedure Rules.

10 Governance Arrangements

10.1 The Council's arrangements for the governance and control of the Treasury Management function are set out in **Appendix 6**.

11 LEGAL IMPLICATIONS

11.1 The Local Government Act 2003 provides that a local authority has the power both to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the Council to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA.

11.2 The revised CIPFA Treasury Management Code of Practice 2017 and the Secretary of State's Investment Code both require the Director of Finance to present an Annual Treasury Strategy, which includes an Annual Investment Strategy, for the forthcoming year for approval by the full Council before the beginning of each financial year.

11.3 The revised CIPFA Prudential Code for Capital Finance in Local Authorities sets out various indicators that are to be used to support capital expenditure plans and treasury management decisions. The prudential and treasury indicators have to be set by the full Council when the budget is set and are monitored during the year. The prudential indicators are included in **Appendix 2** of this report**.**

11.4 The Council is also required to approve a Treasury Management Policy Statement setting out the overarching framework for treasury management services within the Council. This statement is set out in **Appendix 1**, and is unchanged from that approved in March 2012

Christopher Buss
Director of Finance

Background papers used in the preparation of this Report:

CIPFA Code of Practice on Treasury Management for the Public Sector
CLG Guidance on Local Government Investments

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Appendix 1

1 Adoption of CIPFA's Code of Practice

1.1 CIPFA recommends the adoption, as part of the Council's Financial Procedure Rules, of the following four clauses:

a) This Council will create and maintain, as the cornerstones for effective treasury management:
- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

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

b) The full Council will receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after the year's close, in the form prescribed in its TMPs.

c) This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Lead Member for Corporate Services and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the Council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

d) This Council nominates the Audit and Transparency Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

2. Treasury Management Policy Statement

2.1 This Council defines its treasury management activities as:
- The management of the Council's investments and cash flows, its banking, money market and capital market transactions
- the effective control of the risks associated with those activities and
- the pursuit of optimum performance consistent with those risks.

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

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Appendix 2

PRUDENTIAL CODE LIMITS

1 The Prudential Code on borrowing identifies the measures that local authorities should address as a framework for risk management. The proposed parameters for the Council are set out in Tables 1–4 below. Within these limits the Council will also take into account market circumstances in timing any external borrowing.

2 The Capital Financing Requirement (CFR), as defined in the Prudential Code, is a key measure of the local authority's underlying need to borrow for capital expenditure or to finance its other long-term liabilities for the General Fund and HRA. The Council can fund this requirement either by borrowing in the market or by using its internal cash balances to finance its long-term capital financing requirements until market conditions are more favourable.

3 The report on the Capital Programme for 2018-19 to 2020-21, elsewhere on the agenda, shows the effect the Grenfell Tower fire has had on the Council's capital programme and estimated CFR for the HRA and General Fund. The forecast total CFR shown in table 1 below represents the Royal Borough's cumulative long term borrowing requirement (including that brought forward from previous years).

Table 1: Forecast Capital Financing Requirement £'000

Capital Financing Requirement (as at 31 March)	2017-18	2018-19	2019-20	2020-21
General Fund	29,148	28,314	52,513	61,294
HRA	210,164	220,164	250,164	330,164
Total CFR	**239,312**	**248,478**	**302,677**	**391,458**

4 The revised Treasury Management Code requires the Council to ensure that its total debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 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. The Council has complied with this indicator in the current year and will continue to do so in the future considering current commitments, existing plans and the proposals in the budget report.

5 Maximum borrowing limits (known as the Authorised Limit) are **proposed** in Table 2. This is the highest amount the Council will allow. It considers the potential capital programme financing requirement, the potential maximum requirement for temporary borrowing and the amount that could be needed to refinance maturing debt. It allows for the possibility of borrowing in advance against the needs of the future two years of the capital programme i.e. to 2020-21 and funding the existing borrowing gap. The borrowing limits are also required to allow for any new credit arrangements (e.g. finance leases) entered into. The limit is set on a rolling basis for three years ahead.

6 In practice the maximum limit is unlikely to be required. The 'Operational Boundary' also **proposed** in Table 2 is the expected normal upper requirement, were the Council to fund the capital programme in this way. Borrowing in practice

will also be monitored and reported against this limit. The estimates for actual external debt are also shown in the table.

Table 2: Borrowing Limits

£'000

Authorised limit for external debt	2017-18	2018-19	2019-20	2020-21
Borrowing	281,000	415,000	415,000	415,000
Operational boundary				
Borrowing	267,000	395,000	395,000	395,000

7 Table 3 shows the upper limits which are **proposed** on the Council's interest rate exposure. This means we intend to hold at least half of our total projected debt requirements (Table 1) at fixed interest rates to give stability to the budget.

Table 3: Proposed interest rate exposure

% of Total debt

Interest rate exposure limits	2017-18	2018-19	2019-20	2020-21
Fixed interest upper limit	100%	100%	100%	100%
Variable rate interest upper limit	50%	50%	50%	50%

8 Table 4 **proposes** limits for the structure of debt maturities, to ensure that this is reasonably spread out. If large amounts of debt fall due, it could be expensive to replace in times of high interest rates.

Table 4: Proposed structure of debt maturities

Maturity structure of fixed rate borrowing during 2018-19	Lower limit	Upper limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	5%	30%
5 years and within 10 years	10%	50%
10 years and above	30%	85%
Limit of maturity in any one year	0%	10%

Appendix 3

MINIMUM REVENUE PROVISION (MRP) POLICY

Revised 2017-18 and Full Year 2018-19

Under Regulation 28 of the Local Authorities (Capital Finance and Accounting) Regulations 2003 local authorities are required to charge an amount of Minimum Revenue Provision (MRP) to their revenue account in each financial year which is prudent. The definition of prudent is set out in statutory guidance issued by the Secretary of State for Communities and Local Government and which authorities are required to have regard to.

Under the guidance local authorities are required to prepare an annual statement of their policy on making MRP to Full Council. The guidance distinguishes between borrowing for capital expenditure which was previously supported by the government through the Revenue Support Grant system prior to 1 April 2008 and borrowing subsequent to this date where local authorities can use their prudential borrowing powers.

For capital expenditure incurred prior to 1 April 2008, authorities are allowed to continue to apply the 4% MRP based on the level of borrowing. The guidance provides two options for carrying out this calculation. Option 1, ‘the regulatory method’, is to continue to use the calculations that were used under the system that existed from 2004/05 when the previous regulations came into effect. This means that the amount of non-housing Capital Financing Requirement (CFR), adjusted as set out in the original regulations (Adjustment A’), is used as the starting position for the MRP calculation in 2008/09 and adjusted thereafter for supported borrowing in each year. Option 2, the CFR method, is similar to Option 1 but does not include any adjustments to the CFR.

For new borrowing under the Prudential system, councils are required to adopt one of two further options for determining a prudent amount of MRP. Option 3, which is ‘the asset life method’, allows councils to make provision for repayment of principal over the estimated life of the asset. This can be done using the ‘equal instalment’ method, where equal amounts of principal are paid each year, with reducing interest payments as debt is repaid, or the ‘annuity’ method, which is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset. Option 4, which is the ‘depreciation method’, involves making Minimum Revenue Provision in accordance with the standard rules of depreciation accounting. This means setting aside an amount each year in line with estimated annual depreciation until the total initial debt is provided for.

The MRP policy proposed for non-HRA assets is as follows:

a. For capital expenditure prior to 1 April 2008, it is proposed that the council adopts ‘the regulatory method’ (Option 1). Option 1 leads to a lower level of MRP than Option 2, and avoids the council having to make complex calculations for all its assets which it would have to do if Options 3 or 4 were adopted for supported borrowing.

b. For subsequent prudential borrowing incurred post 1 April 2008, it is proposed that the council adopts Option 3, ‘the asset life method’, and that an ‘annuity’ approach is used for calculating repayments. This ensures payments are spread equally over the life of the asset, which matches more closely the value the council gets from the asset than loading payments in the early years of the asset life as would happen under the equal instalment method. It is also considered that this option is more cost effective as provision is not required until the year following actual capital expenditure.

c. For assets acquired to rehouse families affected by the Grenfell Tower fire, for which a direction has been given by the Secretary of State to hold these properties within the General fund, rather than the HRA , a prudent assessment of a NIL MRP provision will be made as long as these properties are held for this purpose and will apply regardless of any subsequent directives and changes in legislation . This assessment is based on the fact that this is consistent with the treatment of comparable HRA assets. In the event that any such property is no longer held for that purpose then option 3 will apply unless the property is disposed of with the receipts being applied to debt redemption.

The proposed asset lives which will be applied to different classes of assets are as follows:

- Vehicles and equipment – 5 to 15 years;
- Capital repairs to roads and buildings – 15 to 25 years;
- Purchase of buildings – 30 to 40 years;
- New construction – 30 to 40 years;
- Purchase of freehold land – 50 years

The guidance also requires that the life of the asset is determined in the year in which it is acquired and is not varied subsequently. The requirement to make Minimum Revenue Provision does not commence until the asset becomes operational. The guidance also sets out the approach to be taken to specific expenditure types which do not fall within the general categories above, including spending capitalised under directions issued by the Secretary of State, capital grants to other organisations and individuals and so on. Details of the maximum asset life that can be applied in these cases are set out in the table below:

Asset Life for Specific Assets Set Out in Guidance

Expenditure Type	**Maximum Value of Asset Life**
Expenditure capitalised by virtue of a direction by the Secretary of State	20 years
Expenditure on computer programs	The life of computer hardware
Loans and grants towards capital expenditure by third parties	The estimated life of the assets in relation to which the third party expenditure is incurred
Repayment of grants and loans for capital expenditure	25 years, or the period of the loan if longer
Acquisition of share or loan capital	20 years
Expenditure on works to assets not owned by the authority	The estimated life of the assets
Expenditure on assets for use by others	The estimated life of the assets

Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	25 years

In the case of finance leases the MRP requirement will be met by a charge equal to the element of the rent/charge that goes to write down the Statement of Financial Position liability.

The above policies do not apply to HRA assets. The duty to make Minimum Revenue Provision in the Local Authorities (Capital Finance and Accounting) Regulations 2003 does not apply to HRA assets.

APPENDIX 4

Investment Instruments

Institution Type	Minimum Credit Rating Required (S&P / Moodys / Fitch)	Investment Limit	Maximum Period
Debt Management Office (DMO)	UK Government rating	Unlimited	6 months
UK Government (Gilts/TBills/Repos)	UK Government rating	Unlimited	5 years
Supranational Banks, European Agencies	LT: AAA/Aaa/AAA or Government backed	£50 million in total	3 years
Network Rail	Government Guarantee	£50 million	5 years
TfL	LT: AA/Aa/AA	£50 million	2 years
UK Local Authorities meeting the Council's local authority lending criteria	N/A	Maximum of 50% of portfolio £10 million per authority	1 year
Partially nationalised banks and building societies in the UK or in highly credit rated countries	Outside of UK Sovereign Rating AAA	£10 million per institution	1 year
Banks and building societies (Deposit/Certificate of Deposit/Short Dated Bonds)	LT: AA+/Aa1/AA+ or above LT: AA-/Aa3/AA- or above LT: A/A2/A or above All subject to minimum short term ratings of F1	£25 million per institution £15 million per institution £10 million per institution	5 years 3 years 1 year
Money Market Funds	LT: AAA By at least one of the credit agencies	£30 million per institution £150 million in total	Up to 7 days notice

a) No differentiation is made between UK and overseas banks. However a limit will be placed on the total amount that can be deposited with all counterparties in any one country outside the United Kingdom as follows:
AAA/Aaa/AAA Maximum 15 per cent of the total portfolio
AA+/Aa1/AA+ Maximum 10 per cent of the total portfolio

The countries covered by these criteria are:

<u>AAA/Aaa/AA</u>
Australia
Canada
Denmark
Germany
Luxembourg
Netherlands

<u>Aa+/Aa1/AA+</u>
Finland
Hong Kong
United States of America

Norway
Singapore
Sweden
Switzerland

b) Wholly owned subsidiaries of UK clearing banks would have half of the limit allocated to the parent bank. Lending to the group will not exceed the total limit to the parent bank.

c) The table above provides limits for both specified and non-specified investments. These are categories of investments set out under section 15(1) of the Local Government Act 2003.

A specified investment is defined as an investment which satisfies all of the conditions below:

i. The investment and any associated cash flows are denominated in sterling;
ii. The investment has a maximum maturity of one year;
iii. The investment is not defined as capital expenditure; and
iv. The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or a parish/community council.

A non-specified investment is any investment that does not meet all the conditions above and can be used after taking into account cash flow requirements, the outlook for short to medium term interest rates and the approval of the Director of Finance.

APPENDIX 5

CREDITWORTHINESS POLICY

1 This policy is designed to enable the Council to assess the standing of financial institutions operating in the money markets and their suitability for inclusion on the approved counterparty list.

2 As a starting point to derive its credit criteria, the Royal Borough will make use of Fitch, Moody's and Standard and Poor's ratings. All credit ratings are monitored on a regular basis. If a downgrading results in the counterparty no longer meeting the Royal Borough's minimum criteria, its further use for new investment will be withdrawn immediately. Any outstanding investments will be allowed to continue to maturity. If an institution is placed on a negative rating watch (i.e. there is a reasonable probability of a rating change in the short term and the likelihood of that change being negative) and is currently near the floor of the minimum acceptable rating for placing investments with that body its further use will be suspended until the credit rating is confirmed.

3 In addition to the use of Credit Ratings, the Council will monitor movements in Credit Default Swaps (CDS) and other market data on a regular basis. Extreme market movements may result in the suspension or removal of an institution from the Council's lending list.

6 The Council will not use the approach suggested by CIPFA of using the lowest rating from the rating agencies to determine creditworthy counterparties as there is no evidence that whichever agency is currently setting the lowest rating is right.

7 In addition we will use market data and information including from quality financial press, information on government support for banks and the credit ratings of that government support.

8 Outside of the UK the Sovereign credit rating of individual countries will continue to be taken into account prior to considering the ratings of individual institutions to be included on the counterparty list. Only institutions from countries with a minimum sovereign rating of AA+ or equivalent from the three main rating agencies (Fitch Moody's or Standard and Poors) will be considered. The list of countries that currently qualify using this credit criteria are shown in **Appendix 4**. This list will be amended if necessary by the Director of Finance. A limit will be placed on the total amount that can be deposited with institutions in any one country outside the United Kingdom.

8 Whilst the majority of Local Authorities are not independently credit rated; they are considered to offer very high security and liquidity. Under s13 of the Local Government Act 2003 'All money borrowed by a local authority, together with any interest on money borrowed, shall be charged indifferently on all the revenues of the authority'.

9 The Council, along with its Tri-Borough colleagues operate a rating methodology for determining the authorities to which it will lend. This is reviewed for robustness on a regular basis.

APPENDIX 6

GOVERNANCE ARRANGEMENTS

1 Scheme of delegation

1.1 This strategy statement has been prepared in accordance with the 2017 Code. Accordingly, the Council's Treasury Management Strategy will be approved by the full Council and there will also be a mid-year report. In addition there will be monitoring reports and regular review by councillors in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 The areas of responsibility of the various Committees and Officers in relation to treasury management activities are set out in the table below:

Area of Responsibility	**Council/Committee/Officer**	**Frequency**
Treasury Management Policy Statement (revised)	Full Council	As and when required
Annual Treasury Strategy	Full Council	Annually before the start of the year
Annual Treasury Strategy – midyear report	Full Council	Mid Year
Annual Treasury Strategy – Updates or revisions	Full Council	As and when required
Annual Treasury Report	Audit and Transparency Committee / Full Council	Annually by 30th September after the end of each year
Treasury Management Monitoring Reports and scrutiny of treasury management performance	Lead Member Corporate Services / Audit and Transparency Committee	Quarterly
Treasury Management Practices	Director of Finance	Reviewed annually

1.3 The section 151 officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers

2 Member Training

2.1 Appropriate member training will be offered as and when needed and suitable opportunities are identified.