HIGH PEAK BOROUGH COUNCIL

Report to Audit & Regulatory Committee

14th February 2017

TITLE:	**Treasury Management Strategy Statement (TMSS) 2017/18**
EXECUTIVE COUNCILLOR:	**Cllr Emily Thrane – Executive Councillor for Finance & Corporate Services**
CONTACT OFFICER:	**Claire Hazeldene – Finance & Procurement Manager** **Emily Bennetts – Finance Business Partner**
WARDS:	**Non-Specific**

Appendices Attached:
Appendix A - Treasury Management Strategy Statement 2017/18

1. Purpose of the Report

1.1 The purpose of the report is to allow members of the Committee to consider and endorse the Council's Treasury Management Strategy for 2017/18, ensuring that its capital and treasury activities for the next four years are affordable and properly managed.

2. Recommendation

2.1. That the Annual Treasury Management Strategy Statement (TMSS) 2017/18 is **recommended** to Council for approval.

3. Executive Summary

3.1. The Council is required, in accordance with the Local Government Act 2003, to produce an annual Treasury Management Strategy Statement before the commencement of each financial year.

3.2. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The Council is required to set prudential and treasury indicators for the next four years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3. The 2017/18 Treasury Management Strategy Statement comprises three principal areas:

a. Capital Programme (section 6)

- The capital plans and the prudential indicators
- The minimum revenue provision (MRP) Policy

b. Treasury Management (section 7)

- Current Treasury position
- Treasury Indicators
- Prospects for Interest Rates
- The Borrowing Strategy

c. The Annual Investment Strategy (section 8)

- Investment Policy
- Creditworthiness Policy
- Investment Income

3.4. Members are asked to note the controls that have been put in place to manage the Council's treasury management risks and activities and to endorse the Treasury Management Strategy for 2017/18.

4. How this report links to Corporate Priorities

4.1. Effective treasury management is critical to the safeguarding and management of the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin the Council's corporate priorities.

5. Evaluation of Options

5.1. This report sets the proposed treasury management approach based upon the Council's financial plans.

6. Implications

6.1. Community Safety - (Crime and Disorder Act 1998)
None

6.2. Workforce
None

6.3. Equality and Diversity/Equality Impact Assessment
This report has been prepared in accordance with the Council's equality and diversity policies.

6.4. Financial Considerations
Financial considerations are embedded throughout the report.

6.5. Legal
None

6.6. Sustainability
None

6.7. Internal and External Consultation
None

6.8. Risk Assessment
There are a number of inherent financial risks associated with treasury management activity, not least the potential for loss of interest and/or deposits. The Council has engaged Capita Asset Services as its treasury management advisors.

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy, which is the subject of this report. The Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

ANDREW P STOKES
Executive Director (Transformation) and Chief Finance Officer

Background Papers	**Location**	**Contacts**
'Treasury Management – Governance and Scrutiny Arrangements' (Audit & Regulatory Committee Sep 09)	Town Hall, Buxton	Claire Hazeldene Finance & Procurement Manager Tel. 01538 395400 #4191 Emily Bennetts Finance Business Partner Tel. 01538 395400 #4186

APPENDIX A

Treasury Management Strategy Statement

Annual Investment Strategy and Minimum Revenue Provision Policy Statement

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2017/18

1. Introduction

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

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

1.3. Treasury Management is defined as “The management of the 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.”

2. Reporting Requirements

2.1. The Council is required to receive and approve, as a minimum, three main reports each year. The three main reports are:

a. **A Treasury Strategy**, which looks forward four years and includes:
   - Treasury Management Strategy, explaining how the investments and borrowings are to be organised, including treasury indicators;
   - The Council’s capital plans, including prudential indicators;
   - Minimum Revenue Provision (MRP) policy, stating how residual capital expenditure is charged to revenue over time; and
   - Investment Strategy, stating the parameters on how investments are to be managed.

b. **A Mid-Year Treasury Management Report**, which updates members on treasury activities during the financial year and provides for revisions to the Treasury Strategy and indicators as necessary.

c. **An Annual Treasury Report**, which updates members on the outturn for the previous financial year, summarises the treasury activity for that year and includes a full listing of actual prudential indictors.

2.2. The Treasury Management Strategy Statement contained in this Appendix addresses the first of these requirements.

2.3. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function prior to reports being formally approved at Council.

2.4. The respective roles & responsibilities of the Council, its Audit & Regulatory Committee and the Section 151 Officer are noted in Annex 2.

3. Treasury Management Strategy Statement 2017/18

3.1. The 2017/18 Treasury Management Strategy Statement comprises the following principal elements:

Capital Programme *(section 6)*	Capital plans and the prudential indicators Minimum revenue provision (MRP) policy
Treasury Management *(section 7)*	Current treasury position Treasury indicators Prospects for interest rates The borrowing strategy
The Annual Investment Strategy *(section 8)*	Investment policy Creditworthiness policy Investment income

3.2. The Treasury Management Strategy Statement meets the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance (CIPFA) Prudential Code, the CIPFA Treasury Management Code and Communities and Local Government (CLG) Investment guidance.

4. Training

4.1. The CIPFA Code requires the responsible officer (the Chief Finance Officer) to ensure that Members and Officers with responsibility for treasury management receive adequate training. Training is particularly important for the Members who are responsible for the scrutiny of the Council's treasury management. Training was provided for new Members of the Audit Committee in July 2015.

4.2. A skills assessment has recently been completed by current Members of the Audit Committee and any subsequent training requirements arising from that will be incorporated into a training plan – iincluding any treasury management training needs.

5. Treasury Management Consultants

5.1. The Council has appointed Capita Asset Services as its external treasury management advisor - providing the Council with access to specialist skills and resources.

5.2. The Council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

5.4. The current contract with Capita Asset Services: Treasury solutions is due to expire on 31st March 2017. A procurement exercise is ongoing for the letting of this contract for the coming period. The 2017/18 Treasury Management Strategy Statement (TMSS) is written in accordance with the incumbent's methodologies. Should the supplier of this contract change during the lifespan of the TMSS, it will be updated and presented accordingly to the Audit & Regulatory Committee and Council as required.

6. The Capital Programme & Prudential Indicators

Capital Expenditure

6.1. The capital expenditure prudential indicator comprises a summary of the Council's capital programme, which is a key driver of treasury management activity.

6.2. The table below summarises the Council's capital expenditure plans and how these plans are to be funded.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£	£	£	£	£	£
Capital Expenditure:	**4,151,100**	**6,173,000**	**9,801,000**	**6,801,000**	**6,004,000**	**5,321,000**
General Fund	1,112,600	2,035,000	5,865,000	2,865,000	2,068,000	1,385,000
Housing Revenue Account	3,038,500	4,138,000	3,936,000	3,936,000	3,936,000	3,936,000
Financed by:						
Capital Receipts	31,300	509,000	1,031,000	798,0000	1,325,000	734,000
Capital Grants	380,200	877,000	471,000	389,000	389,000	389,000
Capital Reserves	741,700	1,550,000	1,550,000	1,550,000	1,550,000	1,550,000
HRA Revenue	2,997,900	2,079,000	1,997,000	2,079,000	2,325,000	2,386,000
Net Financing Need for Year	**-**	**1,158,000**	**4,752,000**	**1,985,000**	**415,000**	**262,000**

The Council's Borrowing Need (the Capital Financing Requirement)

6.3. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. This is essentially a measure of the Council's underlying borrowing need.

6.4. The CFR increases each time the Council procures capital expenditure that it does not immediately pay for (i.e. the CFR increases when its expenditure is financed through borrowing).

6.5. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. This is known as the Minimum Revenue Provision (MRP). The CFR is reduced each year by MRP. Each year's borrowing need is divided by the life of the assets for which borrowing was undertaken, resulting in an annual charge to revenue, and reduction in the Council's CFR.

6.6. The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £556,000 of such schemes within the CFR at 1st April 2016.

6.7. The Council's Capital Financing Requirement is shown in the table below:

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£	£	£	£	£	£
Capital Financing Requirement						
CFR – non housing	*21,563,000*	*21,866,000*	*25,779,000*	*26,864,000*	*26,353,000*	*25,729,000*
CFR – housing	*58,358,000*	*57,108,000*	*55,859,000*	*54,610,000*	*53,360,000*	*52,124,000*
	79,921,000	**78,974,000**	**81,638,000**	**81,474,000**	**79,713,000**	**77,853,000**
Movement in CFR	(2,108,000)	(947,000)	2,664,000	(164,000)	(1,761,000)	(1,860,000)
Represented by:						
Net financing need for the year	-	1,158,000	4,752,000	1,985,000	415,000	262,000
Less Minimum Revenue Provision	(2,108,000)	(2,105,000)	(2,088,000)	(2,149,000)	(2,176,000)	(2,122,000)
Movement in CFR	**(2,108,000)**	**(947,000)**	**2,664,000**	**(164,000)**	**(1,761,000)**	**(1,860,000)**

Minimum Revenue Provision (MRP) Policy Statement

6.8. The Council is required each year to set aside some of its revenues as provision for debt repayment. This essentially allows to Council to "pay off" an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP).

6.9. The MRP was previously defined by statute with regulations providing for MRP as a 4% charge in respect of the amount of the Capital Financing Requirement (CFR). Under current regulations the rules have been replaced with a general duty for a local authority to make an MRP charge to revenue which it considers to be prudent. The new regulation does not itself define "prudent provision". However, guidance has been issued specifying methods for MRP calculation which the Secretary of State considers to be prudent thereby effectively determining prudent provision.

6.10. The Department of Communities and Local Government regulations require the full Council to approve an MRP Statement in advance of each year. It is recommended that the Council apply MRP to capital expenditure funded by borrowing under the 'Asset Life Method': which calculates the MRP charge based on the estimated life of the asset for which the borrowing is undertaken.

6.11. MRP applied to the HRA capital financial requirement is on a voluntary basis. The Council currently applies Minimum Revenue Provision to borrowing related to the 2011/12 HRA Reform settlement payment over the period of the HRA business plan (30 years). This equates to approximately £1.2million per annum. However, as part of the HRA Financial Improvement Plan, the level of MRP applied annually is under review.

Use of the Council's Resources and Investment Position

6.12. The Council builds up capital and revenue reserves as necessary for future application. The application of these resources to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (for example, asset sales, revenue surpluses). Reserves are invested, pending application, to earn a return which supplements the revenue budget.

6.13. An estimate of the amount available at year end for investment is shown in the table below:

	2015/16 Actual	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
	£	**£**	**£**	**£**	**£**	**£**
General Fund	6,086,000	5,608,000	5,054,000	4,214,000	3,492,000	3,486,000
Housing Revenue Account	8,795,000	10,111,000	10,168,000	9,924,000	9,427,000	8,657,000
Total core funds	**14,881,000**	**15,719,000**	**15,222,000**	**14,138,000**	**12,919,000**	**12,143,000**
Working capital *	1,206,000	-	-	-	-	-
(Under)/over borrowing	2,209,000	(6,738,000)	(4,775,000)	(4,731,000)	(3,078,000)	(1,291,000)
Expected investments	**18,296,000**	**8,981,000**	**10,447,000**	**9,407,000**	**9,841,000**	**10,852,000**

** Shown as '0' for estimation purposes as dependent on the value of creditors/debtors at year end*

Affordability Prudential Indicators

6.14. The previous sections outline the Council's capital expenditure plans and funding requirements. This section assesses the affordability of capital investment plans and the impact on the Council's overall finances.

Ratio of financing costs to net revenue stream

6.15. This indicator calculates the cost of capital (borrowing costs net of investment income) as a percentage of the Council's net revenue stream (council tax receipts & government funding - General Fund; rental income - HRA).

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	14%	16%	15%	17%	18%	18%
HRA*	15%	15%	14%	14%	13%	13%

** includes the annual voluntary MRP charge*

Incremental impact of capital investment decisions on Council Tax

6.16. This indicator calculates the incremental impact of capital investment decisions on Council Tax (Band D equivalent) by comparing the Council's latest capital projections, as expressed in the draft Medium Term Financial Plan, with those at the same period last year.

	2015/16 Actual	2016/17* Estimate	2017/18* Estimate	2018/19* Estimate	2019/20* Estimate	2020/21* Estimate
Council Tax *(Band D equivalent)*	(£0.31)	(£0.17)	£1.23	£1.42	(£0.29)	£0.52

* *Based on the difference in the estimated borrowing requirement between the two years and consequent impact on interest payable/loss of interest on investments and MRP charge*

Incremental impact of capital investment decisions on housing rent levels.

6.17. This indicator calculates the incremental impact of capital investment decisions within the housing capital programme on weekly rent levels.

	2015/16 Actual	2016/17* Estimate	2017/18* Estimate	2018/19* Estimate	2019/20* Estimate	2020/21* Estimate
Weekly Housing Rents	(£0.07p)	(£0.01p)	(£0.01p)	(£0.02)	(£0.03)	£0.15

** Based on the difference in capital expenditure estimates between the two years and consequent impact on investment income due to use of balances (no estimated borrowing requirement)*

HRA debt per dwelling

6.18. The indicator in the table below shows the level of HRA debt per dwelling:

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA debt (£)	58,358,000	57,108,000	55,859,000	54,610,000	53,360,000	52,124,000
HRA dwellings (no)	4,021	3,991	3,961	3,931	3,901	3,871
Debt per dwelling (£)	14,513	14,309	14,102	13,892	13,679	13,465

Interest payable & interest receivable

6.19. Given the capital projections above, interest payable & interest receivable budgets for the next four years are forecast as follows:

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing Costs (General Fund)	£1,425,230	£1,664,310	£1,754,890	£1,806,530
Borrowing Costs (HRA)	£3,382,000	£3,244,000	£3,158,000	£3,100,000
Investment Income	(£64,720)	(£63,690)	(£115,540)	(£174,260)

7. Treasury Management

7.1. The treasury management function ensures that the Council's cash is organised so that sufficient cash is available to service its plans. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury indicators and the current and projected debt and investment positions.

Current Debt Position

7.2. The Council's debt position at 31st March 2016 and its debt forecasts going forward are summarised below. The table shows the actual external debt against the underlying borrowing need (the Capital Financing Requirement) highlighting any under or over borrowing.

	March 16 Estimate £	March 17 Estimate £	March 18 Estimate £	March 19 Estimate £	March 20 Estimate £	March 21 Estimate £
External Borrowing	81,574,000	71,825,000	76,577,000	76,562,000	76,562,000	76,562,000
Other long-term liabilities *(Finance Leases)*	556,000	411,000	286,000	181,000	73,000	-
Gross Debt at 31st March	**82,130,000**	**72,236,000**	**76,863,000**	**76,743,000**	**76,635,000**	**76,562,000**
Change in Debt position	(134,000)	(9,894,000)	4,627,000	(120,000)	(108,000)	(73,000)
Capital Financing Requirement	**79,921,000**	**78,974,000**	**81,638,000**	**81,474,000**	**79,713,000**	**77,853,000**
(Under) / over borrowing	2,209,000	(6,738,000)	(4,775,000)	(4,731,000)	(3,078,000)	(1,291,000)

7.3. The Council is required to ensure that its Gross Debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year and the following two financial years. This allows some flexibility for borrowing in advance of need for future years, but ensures that borrowing is not undertaken for revenue purposes.

7.4. The Council is complying with this indicator in the current year and does not envisage difficulty in complying over the life of the Medium Term Financial Plan. This view takes into account current and future proposals with regard to the capital programme.

Treasury Indicators - Limits to Borrowing Activity

7.5. The Council sets limits to ensure that the revenue consequences of the capital programme on external borrowing remain affordable.

Operational Boundary

7.6. This is the limit beyond which external debt is not expected to exceed. This represents the Capital Financing Requirement plus an additional allowance to cover short-term liquidity requirements.

Operational boundary	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
	£	**£**	**£**	**£**	**£**
Capital Financing Requirement	78,974,000	81,638,000	81,474,000	79,713,000	77,853,000
Allowance for borrowing to cover short-term cash flow*	4,232,000	4,359,000	4,490,000	4,580,000	4,672,000
Total Gross Debt	**83,206,000**	**85,997,000**	**85,964,000**	**84,293,000**	**85,525,000**

** Amount required in short-term to cover precepts (the highest cash outflow)*

Authorised Limit for External Debt

7.7. This indicator is the statutory limit set by the Council under Section 3 (1) of the Local Government Act 2003 beyond which external debt is prohibited.

Authorised limit	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
	£	**£**	**£**	**£**	**£**
Operational Boundary	83,206,000	85,997,000	85,964,000	84,293,000	85,525,000
‘Headroom’	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Total Gross Debt	**85,706,000**	**88,497,000**	**88,464,000**	**86,793,000**	**85,025,000**

HRA Debt Limits

7.8. The Council is subject to HRA Debt Limits under the HRA self-financing regime:

HRA Debt Limit	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£	£	£	£	£
HRA Debt Cap	68,233,000	68,233,000	68,233,000	68,233,000	68,233,000
HRA CFR	57,108,000	55,859,000	54,610,000	53,360,000	52,124,000
HRA Headroom*	11,125,000	12,374,000	13,623,000	14,873,000	16,109,000

subject to a review of the HRA Business Plan

Prospects for Interest Rates

7.9. The table in Annex 4, provided by Capita, draws together a number of current City forecasts for short term (Bank Rate) and borrowing rates. The table below summarises Capita's view on average interest rates:

	Dec-16	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	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

7.10. Expectations are that during the two-year period (2017-2019) while the UK is negotiating the terms for withdrawal from the EU, it is likely the Monetary Policy Committee (MPC) will do nothing to dampen growth prospects, (i.e. by raising Bank Rate). Accordingly, Capita tentatively forecasts the first increase in Bank Rate for quarter 2 of 2019 when those negotiations may have concluded. However, other factors could bring the pace and timing of increases forward, such as strong domestically generated inflation from wage increases in the UK.

7.11. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The exceptional volatility of PWLB borrowing rates is anticipated to continue for the foreseeable future correlated to geo-political, sovereign debt crisis and emerging market developments.

7.12. The overall balance of risks to economic recovery in the UK is to the downside, including:

- Uncertainties over the final terms of Brexit and the timetable for its implementation.
- Monetary policy action reaches its limits of effectiveness to stimulate significant sustainable growth, combat deflation, reduce high levels of debt.
- Major national polls
- Resurgence of Eurozone sovereign debt crisis: Greece; stresses arising from disagreements between EU countries on free movement of people, how to handle a huge influx of immigrants; and terrorist threats.
- Geopolitical risks in Europe, the Middle East and Asia.
- UK economic growth and increases in inflation weaker than anticipated.
- Weak growth or recession in the UK's main trading partners

Borrowing Strategy

7.13. The majority of the Council's capital financing requirement is currently fully funded by external borrowing.

7.14. As highlighted above, the Council has an estimated total Net Financing Requirement of £7,414,000 for the four years ending March 2021, which is fully offset by Minimum Revenue Provision of £8,535,600.

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	Total
	£	£	£	£	£
Net financing need	4,752,000	1,985,000	415,000	262,000	**7,414,000**
Minimum Revenue Provision	(2,088,000)	(2,149,000)	(2,176,000)	(2,122,000)	**(8,535,000)**
	2,664,000	**(164,000)**	**(1,761,000)**	**(1,860,000)**	**(1,121,000)**

7.15. The strategy assumes there will be some 'new' borrowing during 2017/18 and 2018/19 to support the net financing need occurring in those years. There is also £5million of existing long term debt maturing during 2018/19, which the strategy anticipates will be partially refinanced during the year. The table at 7.2 shows that the Council is in an 'under-borrowed' position for the life of the Medium Term Financial Plan.

7.16. The capital financing requirement will be closely monitored in order to make a decision on refinancing prior to maturity. Interest rate forecasts will also be monitored to identify any opportunities to refinance maturing debt in advance to reduce interest charges in the long-term.

Policy on Borrowing in Advance of Need

7.17. The Council will not borrow in advance of need, purely to profit from the investment of the extra sums borrowed.

7.18. The Council however may consider borrowing in advance to protect it from higher borrowing costs within approved Capital Financing Requirement estimates to finance new capital expenditure or refinance existing loans. This will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year reporting mechanism.

Debt Rescheduling

7.19. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, supported by the Council's treasury advisors, will monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

Treasury Management Limits on Activity

7.20. The activity of the treasury function is constrained within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.

7.21. The treasury management limits on activity are:

- Upper limits on fixed interest rate exposure - this identifies a maximum limit for fixed interest rates based upon the debt and investment position;
- Upper limits on variable interest rate exposure - this identifies a maximum limit for variable interest rates based upon the debt and investment position;
- Limits on the maturity structure of borrowing - these limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time.

	2017/18	2018/19	2019/20	2020/21
	£	£	£	£
Limits on fixed interest rates:				
• *Debt only*	83,531,000	83,537,000	84,220,000	82,525,000
• *Investments only*	26,000,000	26,000,000	26,000,000	26,000,000

	2017/18	2018/19	2019/20	2020/21
	£	£	£	£
Limits on variable interest rates				
• *Debt only*	23,607,000	23,690,000	23,345,000	22,967,000
• *Investments only*	25,300,000	25,300,000	25,300,000	25,300,000

Maturity Structure of borrowing 2017/18		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	60%
10 years and above	0%	90%

8. Annual Investment Strategy

Investment Policy

8.1. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

8.2. The Council's principal investment priorities are the security of capital and the liquidity of its investments. In addition to this, the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

8.3. To minimise the risk to its investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy conterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

8.5. The investment instruments identified for use in the financial year are listed in Annex 3 under the headings, ‘Specified’ and ‘Non-Specified’ Investments.

8.6. Counterparty limits will be set as part of the Treasury Strategy and maintained as part of the Council’s treasury management practices.

8.7. The Council will report on its investment activity in its Annual Treasury Report at the end of the financial year.

Creditworthiness Policy

8.8. This Council employs the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from three main credit rating agencies – Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

8.9. Credit watches and outlooks are issued by the ratings agencies. ‘Credit watches’ are considered short-term actions, whereas ‘outlooks’ are considered over a longer term time horizon. Capita includes the release of a negative or positive watch/outlook in its creditworthiness analysis.

8.10. A ‘Credit Default Swap’ is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event of the reference entity. The contract essentially gives protection or ‘insurance’. Therefore, CDS spreads provide perceived market sentiment regarding the credit quality of an institution and are also used in the creditworthiness analysis to determine the durational band of investment with a financial institution.

8.11. Capita's creditworthiness model combines credit ratings, credit watches and outlooks in a weighted scoring system, with an overlay of CDS spreads, to produce a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are then used to determine the duration for investments.

8.12. Only counterparties that fall within a 'durational band' will be included on the Council's lending list. In conjunction with the recommended durational limits, the Council has assigned corresponding investment limits to each banding. The limits have been set separately for UK banks and International banks.

UK Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance**)
Yellow*	£5.5m	Up to 5 years	20%
Purple	£5.5m	Up to 2 years	20%
Gold	£4.9m	Up to 1 year	18%
Red	£4.0m	Up to 6 months	15%
Green	£3.5m	Up to 100 days	13%
No Colour	-	Not to be used	-

** UK Government debt instruments*
***assumes highest balance in 2017/18 is £27,500,000*

International Banks

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Purple	£4.0m	Up to 2 years	15%
Gold	£3.3m	Up to 1 year	12%
Red	£2.7m	Up to 6 months	10%
Green	£2.2m	Up to100 days	8%
No Colour	-	Not to be used	-

** assumes highest balance in 2017/18 is £27,500,000*

8.13. The Council's lending list includes part- and fully-Nationalised UK banks, which have been assigned the 'blue' category as per Capita's creditworthiness matrix. This category has been allocated a longer durational period and higher investment limit since it has strong Government support. The table below assigns investment limits:

Category	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Blue	£5.5m	Up to 1 year	20%
NatWest (the Council's main bank account)	£8.2m	Up to 1 year	30%

** assumes highest balance in 2017/18 is £27,500,000*

8.14. The Council is alerted to changes in ratings and market movements through its use of the Capita creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, it will no longer be used for new investments. All ratings will be monitored prior to any new investments being placed.

Group Limits

8.15. To reduce its risk further the Council has set a group limit for fixed term deposits in institutions with the same parent. The group limit will increase the portfolio percentage of the colour band the institution it is rated in at the time by a further 50% where at least the additional amount is held in an instant access account:

Category	Portfolio (% of highest balance*)	Individual Principal Limit	Portfolio % increased by 50%	Group Principal Limit
Blue	20%	£5.5m	30%	£8.2m
Purple	20%	£5.5m	30%	£8.2m
Gold	18%	£4.9m	27%	£7.4m
Red	15%	£4.0m	23%	£6.3m
Green	13%	£3.5m	20%	£5.5m

** assumes highest balance in 2017/18 is £27,500,000*

Money Market Funds

8.16. The Council has access to several Money Market Funds (MMF) - all of which are 'AAA' rated. A 'Money Market Fund' is a pooled vehicle investing in a number of investment instruments with varying maturity periods in a number of different countries. Money Market Funds provide an alternative option for the Council when placing short-term funds and provide for diversification of the investment portfolio.

8.17. The Council has set investment limits in Money Market Funds as follows:

	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Individual MMF	£4.9m	Up to 1 year	18%
Total MMF investments**	£6.3m	Up to 1 year	23%

** assumes highest balance in 2017/18 is £27,500,000*
*** maximum held in MMF's at any one time*

Sovereignty Ratings

8.18. A sovereign credit rating is the credit rating of a sovereign entity i.e. a country. The highest sovereign rating awarded is 'AAA'. The evolving regulatory environment, in tandem with the rating agencies' new methodologies, means that sovereign ratings are now of lesser importance in the assessment process and the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

8.19. While the Council understands the changes that have taken place, it will continue to use sovereign ratings of individual counties in addition to credit ratings when making investment decisions. When investing with institutions outside the UK, only banks and building societies located in countries with a minimum sovereign rating of ‘AAA’ will be used. This is in relation to the fact that the underlying domestic and, where appropriate, international economic and wider political and social background will still have an influence on the ratings of a financial institution. There are currently 10 ‘AAA’ rated countries approved for investments, as follows:

Australia	**Canada**	**Denmark**	**Germany**	**Luxembourg**
Netherlands	**Norway**	**Singapore**	**Sweden**	**Switzerland**

Investment income

8.20. The Council’s in-house managed funds are derived from a core balance available for capital and revenue funding and day-to-day cash flows. At 31st March 2016 the core balances available for investment were £16,100,000. Core balances are available for investment in line with the profile of capital expenditure and requirements of the revenue budget. Investments are therefore made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Investment Return Expectations

8.21. Bank Rate is forecast to remain unchanged at 0.25% until a rise to 0.50% in June 2019, and then rise to 0.75% in December 2019. Bank Rate forecasts for financial year ends (March) are:

- March 2018 0.25%
- March 2019 0.25%
- March 2020 0.75%

8.22. For 2017/18 the Council has budgeted for an average investment return of 0.31%. The average rates assumed on new investments is as follows:

- Fixed Term Investments (3 month to 1 year) 0.42%
- Instant Access Business Accounts and short-term fixed deposits 0.22%.

8.23. The 2017/18 income budget is therefore forecast to be £64,720.

Long-term Investments *(greater than 1 year)*

8.24. When placing long-term investments with counterparties, the Council's liquidity requirements, availability of funds and counterparty eligibility need to be taken into consideration. The table below sets the limit on the total principal funds that may be invested for greater than 364 days.

Maximum principal sums invested > 364 days				
	2017/18	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 364 days	£4,000,000	£4,000,000	£4,000,000	£4,000,000

ANNEX 1

Treasury Management Policy Statement

In accordance with the CIPFA Code of Practice on Treasury Management, High Peak Borough Council defines the policies and objectives of its treasury management activities as follows:

1. The Council defines its treasury management activities as: *"The management of the 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."*

2. The 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.

3. The 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.

ANNEX 2

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit & Regulatory Committee

- approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The treasury management role of the section 151 (responsible) officer

- 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;
- recommending the appointment of external service providers.

ANNEX 3

Specified and Non-Specified Investments

Specified Investments

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

Investment Instrument*	Minimum 'High' Credit Criteria	Investment Limit**
Debt Management Agency Deposit Facility (DMADF)	n/a	n/a
Term deposits – local authorities	n/a	n/a
Bridging Loans (Community Groups within HPBC)	Decision made on individual basis & subject to presentation of required documents	£100,000 (total outstanding for all loans at any one time)
UK Government Gilts and Treasury Bills	UK Sovereign Rating	n/a
Certificates of deposits or corporate bonds with banks and building societies	Based on Capita Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK)	As per individual / group lending limits
Term deposits – banks and building societies	Based on Capita Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK)	As per individual / group lending limits
UK (Part-)Nationalised Banks	Based on Capita Creditworthiness analysis. Lowest Band – BLUE	As per individual / group lending limits
UK Instant Access Accounts	Based on Capita Creditworthiness analysis. Lowest Band – GREEN	As per individual / group lending limits
Money Market Funds (MMF)	AAA rated	As per individual / group lending limits

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate*

*** must conform to both institution and group limits set*

Non-specified Investments

Non-specified investment instruments are assumed to take on greater risk and should therefore be subject to greater scrutiny. They include investments that are for a period of more than one year and instruments that the Council has very limited experience and expertise in dealing with.

A maximum of £11,000,000 (40% of the projected highest balance) will be held in aggregate in non-specified investments.

Non-specified Investments	Minimum Credit Criteria	Investment Limit / Max. % of total investments	Max. maturity period
Term deposits – UK government (maturities in excess of 1 year)	n/a	£4,000,000 (> 364 day limit)	5 years
Term deposits – other LAs / Parish Councils (maturities in excess of a year)	n/a	£4,000,000 (> 364 day limit)	To be determined on an individual case basis, inclusive of options for the Council to review terms at specified periods of time (no greater than 5 years)
Term & Callable deposits – banks and building societies (maturities in excess of 1 year)	Based on Capita Creditworthiness analysis. Lowest Band – PURPLE Sovereignty Rating -AAA	£4,000,000 (> 364 day limit)	2 years
Collateralised Deposit	Based on Capita Creditworthiness analysis. Band – YELLOW Sovereignty Rating -AAA	£5,500,000 (as per Yellow limit)	5 years
Commercial Paper	Based on Capita Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating -AAA	£2,700,000 (10% of highest balance)	1 year
UK Government Gilts – all maturities	Long term AAA	£2,700,000 (10% of highest balance)	2 years
Bonds issued by multilateral development banks - all maturities	Long term AAA	£2,700,000 (10% of highest balance)	2 years
Bonds issued by a financial institution which is guaranteed by the UK government – all maturities	Long term AAA	£2,700,000 (10% of highest balance)	2 years
Sovereign bond issues (i.e. other than the UK govt) – all maturities	Long Term AAA	£2,700,000 (10% of highest balance)	2 years
Treasury Bills – all maturities	n/a	£4,000,000 (15% of highest balance)	1 year

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
Non-specified Investments	**Minimum Credit Criteria**	**Investment Limit/ Max. % of total investments**	**Max. maturity period**
1. Government Liquidity Funds – all maturities	AAA rated	£4,000,000 (15% of highest balance)	2 years
2. Money Market Funds – all maturities	AAA rated	£5,500,000 (20% of highest balance)	2 years
3. Enhanced cash funds – all maturities	AAA rated	£2,700,000 (10% of highest balance)	2 years
4. Gilt Funds – all maturities	AAA rated	£2,700,000 (10% of highest balance)	2 years

ANNEX 4

UK Interest Rate Forecast (Capita)

Capita Asset Services Interest Rate View													
	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	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%