Appendix B - Treasury Management Strategy Statement (TMSS) 2018/19

Introduction

In a Council meeting on 29 November 2012, the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (2011 Edition)* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year. The CLG will also be revising its Investment Guidance (and its Minimum Revenue Provision (MRP) guidance) for local authorities, expected to be implemented in full for the 2018/19 financial year. The proposed changes in relation to MRP are outlined at Appendix D.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

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

External Context

Economic background: The major external influence on the Council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union (EU) and agreeing future trading arrangements. The domestic economy has remained relatively robust since the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements are likely to extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

The Consumer Prices Index (CPI) 12-month rate was 3.1% in November 2017, up from 3.0% in October 2017; it was last higher in March 2012. It has been pushed higher by the boost to import prices that resulted from the past depreciation of sterling. However, this effect is expected to fall out of year-on-year inflation measures during 2018, removing pressure on the Bank of England to raise interest rates.

The Monetary Policy Committee (MPC) meets on a monthly basis to set the Bank of England's Base Rate, which is used to control the level of inflation. The MPC aims for a target CPI inflation rate of 2.0%, within a range of plus or minus 1.0%, i.e., between 1.0% and 3.0%. The Bank is expected to look through inflation overshoots over the course of 2018 when setting interest rates so as to avoid derailing the economy given the pressure on household spending and business investment.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its Quantitative Easing (QE) programme, signalling some confidence in the Eurozone economy.

Interest rate forecast: The Council's current treasury advisers, Arlingclose, do not expect the Bank of England to raise its Base Rate from its current level of 0.50% over the next three years.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at *Schedule 1*.

For the purpose of setting the 2018/19 budget, it has been assumed that new investments will be made at an average rate of 0.50%, and that new short-term loans will be borrowed on an average variable interest rate of 0.75% based on the forecast prevailing Base Rate plus a prudent allowance for uncertainty and brokerage fees.

Local Context

At 30 November 2017, the Council held £317.6M of borrowing and £16.7M of investments. This is set out in further detail at *Schedule 2.* Forecast changes in these sums are shown in the Balance Sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31/3/17 Actual £M	31/3/18 Estimate £M	31/3/19 Estimate £M	31/3/20 Estimate £M	31/3/21 Estimate £M
General Fund CFR	359.5	354.1	402.3	431.0	447.8
HRA CFR	165.0	165.0	164.8	164.5	164.0
Total CFR	**524.4**	**519.1**	**567.1**	**595.5**	**611.8**
Less: Other long-term liabilities *	(17.2)	(16.5)	(15.7)	(15.3)	(14.9)
Borrowing CFR	**507.2**	**502.6**	**551.3**	**580.3**	**596.9**
Less: External borrowing **	347.8	275.6	275.6	275.6	275.6
Internal (over) borrowing	**159.4**	**227.0**	**275.8**	**304.7**	**321.3**
Less: Usable reserves	102.8	91.1	78.1	51.1	45.5
Less: Working capital	56.6	30.0	30.0	30.0	30.0
New borrowing ***	**0.0**	**(105.9)**	**(167.7)**	**(223.6)**	**(245.8)**

* PFI liabilities form part of the Council's debt

** shows only loans to which the Council is committed and excludes optional refinancing

*** forecast borrowing is based on the full Capital Programme being achieved.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves are the underlying resources available for investment. However, usable reserves include schools balances, those specific to the Housing Revenue Account (HRA) and other earmarked reserves. The usable General Fund reserves balance as at 31 March 2017 was £15.6M.

The Council has an increasing CFR due to the Capital Programme and continues to adhere to its long-standing strategy of holding low cash balances to reduce investment counterparty risk and contain its borrowing costs by utilising cash balances in lieu of borrowing externally. The Balance Sheet summary in Table 1 shows that the Council's extent of internal borrowing was £159.4M as at 31 March 2017. The Council uses internal resources in lieu of borrowing to the full extent as this has continued to be the most cost effective means of funding capital expenditure.

CIPFA's *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2018/19.

Regulatory Updates

MiFID II:

Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3 January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the Council must have an investment balance of at least £10M and the person authorised to make investment decisions on behalf of the Council must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Council has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Council meets the conditions to opt up to professional status and has done so in order to maintain its current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes:

In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full Council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will also be revising its Investment Guidance (and its Minimum Revenue Provision (MRP) guidance) for local authorities. The proposed changes in relation to MRP are outlined at Appendix D.

Borrowing Strategy

At 30 November 2017, the Council held external borrowing of £317.6M. The Balance Sheet forecast in Table 1 shows that it is estimated that the net borrowing CFR will decrease by £4.6M in 2017/18, from £507.2M to £502.6M.

The primary objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council’s long term plans change is a secondary objective.

Given the significant reductions in public expenditure and in particular local government funding, the borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. With short term interest rates currently much lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow using short term fixed rate loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing and short term fixed rate loan finance will be monitored regularly against the potential for incurring additional costs when long term borrowing rates are forecast to rise modestly. Arlingclose will assist with this 'cost of carry' calculation and breakeven analysis. The output may determine whether the Council considers borrowing additional sums at long term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

In addition, the Council may take out short term fixed rate loans (normally for up to one to six months) to cover unexpected cash flow shortages.

The approved sources of long term and short term borrowing are:

- the PWLB
- UK local authorities
- police and fire authorities
- other public bodies such as Police and Crime Commissioners
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public sector pension funds (except Bedfordshire Pension Fund)
- special purpose companies created to enable joint local authority bond issues
- capital market bond investors.

The Council and its predecessors raised the majority of the long term borrowing from the PWLB. The Council plans to maintain minimal cash levels for operational purposes to minimise investment counterparty risk and source its borrowing needs from other UK local authorities, police and fire authorities, Police and Crime Commissioners, and UK public sector pension funds on a short term rolling basis. This strategy is expected to achieve significant revenue cost savings over the more traditional route of long term fixed rate borrowing from the PWLB.

The revenue implications of the Capital Programme over 2018/19 to 2021/22 have been calculated on the assumption that most new borrowing will be taken on a short term fixed rate basis taking advantage of current low levels of interest rates. This borrowing strategy assumes that interest rates will continue to remain low for longer than previously envisaged, in line with advice from Arlingclose who do not expect the Bank of England to raise its Base Rate from its current level of 0.50% over the next three years. However, the Council will continue to monitor long term rates with a view to fixing a portion of its borrowing if rates are favourable.

There is a risk that interest rates may increase or be higher than current rates when it comes to refinancing debt taken out on a short term basis. This would lead to higher revenue implications arising from the draft Capital Programme over the longer term, beyond the current Medium Term Financial Plan (MTFP) period. However, interest rate risk is preferable to credit risk which is minimised through the use of short term fixed rate borrowing to enable the Council to maintain minimal operational cash balances.

The Council holds £13.5M of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2018/19, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at low cost if it has the opportunity to do so.

Short term fixed rate and variable rate loans leave the Council exposed to the risk of short term interest rate rises and are therefore subject to the limits on the exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, where this is expected to lead to an overall saving or a reduction in risk.

Investment Strategy

At 30 November 2017, the Council held £11.3M of invested funds, (excludes an external investment in the Aviva Investors' Lime Property Fund Unit Trust valued at £5.4M as at 30 November 2017). Over the past 12 months, the investment balance which is determined by reference to the Council's day-to-day cash flow requirements has ranged between £5M and £41M. The Council plans to maintain minimum cash levels for operational purposes in the forthcoming year.

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

Given the increasing risk and very low returns from short-term unsecured bank deposits, the Council aims to effectively manage this risk by maintaining minimum cash levels for operational purposes and diversifying investments between several counterparties to mitigate the impact of any bail-in of unsecured investments. Local authority investments in bank call/notice accounts, deposits and Money Market Funds (MMFs) are unsecured investments.

The Council may invest its surplus funds with any of the counterparties in Table 2 below:

Table 2: Approved Investment Counterparties

<table>
<tr><th colspan="2">Counterparty</th></tr>
<tr><td rowspan="8">Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:</td><td>AAA</td></tr>
<tr><td>AA+</td></tr>
<tr><td>AA</td></tr>
<tr><td>AA-</td></tr>
<tr><td>A+</td></tr>
<tr><td>A</td></tr>
<tr><td>A-</td></tr>
<tr><td>BBB+</td></tr>
<tr><td colspan="2">UK Central Government (irrespective of credit rating)</td></tr>
<tr><td colspan="2">UK Local Authorities, Police and Fire Authorities, other public bodies such as Police and Crime Commissioners, and UK public sector pension funds (irrespective of credit rating)</td></tr>
<tr><td colspan="2">Money market funds and other pooled funds</td></tr>
</table>

Current Account Bank: The Council's current accounts are held with NatWest which is currently rated at the minimum BBB+ (or Moody's equivalent of Baa1) rating in Table 2. Should the credit ratings fall below BBB+, the Council may continue to deposit surplus operational cash with NatWest providing that the cash can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (or Moody's equivalent of Baa3) which is the lowest investment grade rating.

Registered Providers: Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain the likelihood of receiving Government support if needed. The Council will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts.

Other Pooled Funds: These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. They offer enhanced returns over the longer term, but are potentially more volatile in the shorter term, and their performance and continued suitability in meeting the Council's investment objectives need be monitored regularly. The Council has one pooled fund, investing in UK commercial property, inherited from one of the legacy councils (the "Lime Fund"). This investment is monitored regularly with our treasury management adviser, Arlingclose, and continues to meet the Council's investment objectives. There are no plans currently to invest further in pooled funds.

Other Organisations: The Council may also invest cash with other organisations, for example by making loans to small businesses. Given the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser, Arlingclose.

Subsidiaries and Partly-Owned Companies: The Council may also invest cash with its unrated subsidiaries and partly-owned companies as part of a diversified pool in order to spread the risk widely.

Risk Assessment and Credit Ratings: The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury adviser, Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made; and
- consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a BBB+ rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

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

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling
- due to be repaid within 12 months of arrangement
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government;
    - a UK local authority;
    - a Police or Fire Authority;
    - other public bodies such as Police and Crime Commissioners;
    - a UK public sector pension fund; or
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore include the existing investment in the Lime Fund and long term investments, i.e., those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition of high credit quality. Limits on non-specified investments are shown in Table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long term investments	£10M
Total investments without credit ratings or rated below A- (except UK Government, UK Local Authorities, Police and Fire Authorities, other public bodies such as Police and Crime Commissioners, and UK public sector pension funds)	£10M
Total investments (except MMFs and other pooled funds) in foreign countries rated below AA+ by individual country	£10M

Investment Limits: The Council's General Fund revenue reserve available to cover investment losses is forecast to be £15.6M on 31 March 2018. In order that no more than £7M of the available reserve will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £7M. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£7M each
UK Central Government (irrespective of credit rating)	unlimited
UK Local Authorities, Police and Fire Authorities, other public bodies such as Police and Crime Commissioners, and UK public sector pension funds (irrespective of credit rating)	unlimited
Any group of organisations under the same ownership	£7M per group
Any group of pooled funds under the same management	£10M per manger
Negotiable instruments held in a broker's nominee account	£10M per broker
Foreign countries	£10M per country
Registered Providers	£10M in total
Unsecured investments with Building Societies	£10M in total
Loans to small businesses	£10M in total
Loans to subsidiaries and partly-owned companies	£10M in total
Money Market Funds	70% in total

Liquidity management: Cash flow forecasting is used to determine the maximum period for which funds may prudently be committed. Limits on long term investments are set by reference to the Council's Medium Term Financial Plan and cash flow forecast.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Council may purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments.

Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable interest rate exposures, expressed as the proportion of net principal borrowed will be:

Table 5: Limits on Fixed and Variable Rate Exposures

	Actual fixed and variable rate borrowing as at 30/11/2017 %	**2017/18 %**	**2018/19 %**	**2019/20 %**	**2020/21 %**
Upper limit on fixed rate exposure	70	100	100	100	100
Upper limit for variable rate exposure	30	50	50	50	50

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For example, a rise in interest rates would increase the revenue cost of borrowings at variable rates. The Council has a number of strategies for managing interest rate risk and aims to keep a maximum of 50% of its borrowings in variable rate loans during 2018/19.

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Actual Fixed Rate Borrowing as at 30/11/2017 %	Upper Limit %	Lower Limit %
Under 12 months	6	20	0
12 months - 24 months	0	20	0
24 months - 5 years	0	60	0
5 years - 10 years	24	100	0
10 years - 20 years	43	100	0
20 years - 30 years	0	100	0
30 years - 40 years	27	100	0
40 years - 50 years	0	100	0

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment, e.g., LOBO option dates (on which the lender can require payment) are treated as potential repayment dates.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£10M	£10M	£10M

Other Items

There are a number of additional items that the Council is obliged by CIPFA and CLG to include in its Treasury Management Strategy Statement.

Policy on Use of Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Policy on Apportioning Interest to the HRA: The Council has adopted a two pooled approach and all the costs/income arising from long-term loans will be either charged from or credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA based on a "risk free" rate sourced from HM Treasury's Debt Management Account Deposit Facility (DMADF).

Investment Training: The needs of the Council's treasury management staff for training in investment management are assessed regularly as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers: Arlingclose is the appointed treasury management advisers providing specific advice on investment, debt and capital finance issues.

Investment of Money Borrowed in Advance of Need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit for 2018/19 of £603.1M. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Resources, having consulted the Executive Member for Corporate Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income. Unable to deliver the full Capital Programme.	Reduced investment balance leading to a lower impact in the event of a default; however long term interest costs may be less certain

Schedule 1 – Arlingclose Economic & Interest Rate Forecast

Underlying assumptions:

- The UK economy faces a challenging outlook as its minority Government continues to negotiate the country's exit from the EU. UK Q2 GDP growth was 0.3%, after a 0.2% expansion in Q1. The initial expenditure breakdown showed weakness in consumption, business investment and net trade. Both consumer and business confidence remain subdued.
- Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low, with little scope for further reduction to smooth consumption. When inflation eventually eases, savings are likely to be replenished, further diverting money away from consumption.
- Some data has held up better than expected, with unemployment falling to an all-time low and house prices remaining relatively resilient.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remain elevated and help to anchor safe-haven flows into the UK government bond (gilt) market.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
Arlingclose Central Case	0.70	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	1.93
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.39

Schedule 2 – Existing Investment & Debt Portfolio Position

	30/11/17 **Actual Portfolio** **£M**
External Borrowing:	
PWLB – Fixed Rate	217.1
PWLB – Variable Rate	45.0
LOBO Loans	13.5
Local Government Loans	42.0
Total External Borrowing	**317.6**
Other Long Term Liabilities:	
PFI	17.2
Total Gross External Debt	**334.8**
Investments:	
Managed in-house	
Short-term investments	11.3
Pooled Funds *(Lime Fund)*	5.4
Total Investments	**16.7**
Net Debt	**318.1**