Appendix G

Treasury Management Strategy, Minimum Revenue Provision Strategy and Annual Investment Strategy

1. The CIPFA Treasury Management Code of Practice

1.1 The Treasury Management and Investment Strategy has been set in accordance with the CIPFA Treasury Management Code of Practice 2011 and the revised Prudential Code for Capital Finance 2017.

1.2 The Council is required to approve a Treasury Management Strategy which establishes the investment and borrowing activities for the Council. The Council's approach to Treasury Management is in accordance with the Cipfa Code of Practice, which requires a 3 year strategy to be agreed annually.

1.3 The Prudential Code for Capital requires the Council to set Prudential Indicators for Treasury Management and Capital Expenditure. These are linked to the Strategy and are set out at the end of this document.

1.4 The Council is also required to make an annual Policy statement on making Minimum Revenue Provision (MRP) for borrowing, together with the consideration of prudent provision in future financial years.

1.5 The Council delegates responsibility for the monitoring and scrutiny of treasury activity to the Governance, Audit & Finance Committee, and delegates responsibility for implementing and administering the strategies, policy and procedures to the Chief Finance Officer. The Council also seeks external advice through Link Asset Services under the outsourced Finance function.

2. Treasury Management Policy 2019/20

2.1 The Council may wish to acquire property sites for strategic, operational and investment purposes but would have to borrow to achieve this.

2.2 Property acquisitions prior to 2017/18 have been financed through surplus cash. However, this cash is intended to support reserves and General Fund in the longer term and the minimum liquidity has now been reached.

2.3 Following the 0.25% increase in Base Rate in August 2018, market indications suggest that there could be further base rate increases in the short term as the Bank of England seek to mitigate increases in inflation that is currently being experienced.

Economic Factors

2.4 Factors that influence the Council's Treasury Management Strategy include the Council's overall level of resources, medium term spending plans and the need to finance the future cost of services. It is also influenced by the state of the economy in general, the outlook for interest rates and the credit risk environment.

2.5 The Treasury strategy is linked to the Council's medium term financial plans, and are reflected in a net interest cost or yield in the Council's budget. The net cost/yield estimates are updated regularly through the budget setting process and in year forecasting.

2.6 The Council's investment strategy gives scope to invest in approved instruments outlined in the approved lending/borrowing list (Schedule 3), but investments in banks and building societies are limited to high quality counterparties only.

Prudential Indicators

2.7 The Prudential Indicators were established as part of the Local Government Act 2003 through the Prudential Code. The Code requires the Council to produce indicators to demonstrate that capital financing is prudent, sustainable and affordable. The indicators are set out at the end of this document.

MRP Policy

2.8 The Council is required to calculate an amount in relation to its borrowing, and charge this amount as Minimum Revenue Provision to its Income & Expenditure Account in respect of borrowing repayment. The Policy is set out at Schedule 4 to the Treasury Management Strategy.

Officer Approval Limits

2.9 The Chief Financial Officer, in consultation with the Executive Board, Asset Management Group Leader, and the Leader/Deputy Leader, will have authority to sign off property purchases, in line with a framework approved by Cabinet.

Risk Management

2.10 Minimising risk is a key aspect of treasury management activity. Risk is proactively managed with advice from Link Asset Services (formerly Capita Asset Services) and property investment decisions are subject to detailed business cases. As the Council moves towards a net borrowing position, interest rate exposure is an emerging risk and the timing of any move from short to long term borrowing is closely monitored.

2.11 The Finance Team carry out their duties in accordance with internal controls to ensure any day to day investment decisions are made in accordance with the Treasury Management Strategy.

2.12 The CFO reports on Treasury activity as part of the monthly financial monitoring.

2.13 The Governance Committee will be responsible for the scrutiny of Treasury Management activity & practises.

SCHEDULE 1 – TREASURY MANAGEMENT STRATEGY

The Authority has 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 Authority to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in February 2018 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance. The Authority is proposing to borrow substantial sums of money and, as a result, may be exposed to financial risks arising from changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

As part of the Provisional Settlement the Government launched a consultation into potential updates on Prudential Code and Treasury guidance, specifically to update it to reflect increasing use of borrowing to finance investment purchases. Updated guidance will not be released in time for the 2019/20 strategy, however once the revised guidance is available it will be reviewed and, if necessary, a revised Treasury Strategy will be produced during the financial year.

Havant Borough Council's context

Havant Borough Council anticipates that, by 31 March 2019, £3.4m will be invested short term, and no longer term deposits maturing beyond 12 months There was external borrowing in place as at January 2019 of £3.5m, which represents the balance of PWLB borrowing for the refurbishment of the Plaza.

The underlying need to borrow is measured by the Council's Capital Financing Requirement (CFR). The Prudential Code recommends that total debt should be lower than the CFR and the Prudential Indicators at schedule 2 demonstrates that this recommendation has been complied with.

Borrowing Strategy

The Council will adopt a flexible approach to borrowing in consultation with Treasury Management advisors, and will keep under review the following borrowing sources:

- Internal borrowing (borrowing against future revenue budgets)
- PWLB
- Other Local Authorities
- Finance Leasing
- Brokers for short term borrowing

Exposure to short dated/variable rate borrowing will be reviewed by reference to the difference between variable rate and longer term borrowing costs. A significant change in this difference will trigger a review of borrowing strategy to determine whether a switch to longer term rates is made or whether exposure to short term rates is maintained.

Capital Finance can also be raised through other debt liabilities, including Finance Leases, Private Finance Initiatives, Sale & Leaseback, or LGA Bonds. Any decision to raise finance through these methods will be subject to appraisal and a separate report to Cabinet.

The Council may take advantage of debt rescheduling (the repayment of loans before maturity to allow replacement with new loans) where it is expected to create a cost saving or significantly reduce interest rate risk to the Council.

Investment Strategy

The Council's overriding objective in relation to the investment of cash is the security of the capital invested, followed by the liquidity of investment. The Council aims to maximise yield given these parameters.

Investments are categorised as specified or non specified investments. Specified investments are sterling denominated investments maturing within 1 year, and non specified investments are effectively anything else.

The CFO has discretion to make investments outside of the Lending list on the advice of Capita. Institutions may be added or removed from the list if credit ratings improve or deteriorate below the thresholds outlined on the List.

Overnight funds are held in an overnight fund provided by the Council's bank. Consideration will be given to Money Market Funds in 2019/20 as an alternative to the overnight account, and may be utilised if the CFO is satisfied with the level of risk.

The Council will arrange short term investments through brokers, in order to ensure transactional security and to promote competition to enhance returns. The approved brokers are:

- ICAP Europe Ltd
- Prebon Marshall Yamane UK Ltd
- Tradition UK
- RP Martin

Interest Rate Forecasts

The Council formulates a view on interest rates as part of the budget setting process. This view is formulated on the basis of the Office for Budgetary Responsibility forecasts used for the Autumn Statement. The current view is that interest rates are likely to increase in 2019, and that increases beyond this would be incremental. Although there are inflationary pressures, and the weakening of Sterling since 2016, there is also uncertainty as to how Brexit negotiations will affect the wider economy. The annual FT survey on base rate expectations demonstrates a mixed view over when interest rates will change over the next 12 months. The table below details interest rate forecasts provided.

	2019/20				**2020/21**			
	Qtr 1	**Qtr 2**	**Qtr 3**	**Qtr 4**	**Qtr 1**	**Qtr 2**	**Qtr 3**	**Qtr 4**
OBR Forecast	1.0%	1.0%	1.0%	1.25%	1.25%	1.25%	1.5%	1.5%

It is important to note that although the base rate has changed, the rates that we can get on our investments are based on the London Inter bank Offer rate, which fluctuates depending on other market factors. This explains the differing rates of return of our current investment portfolio.

Creditworthiness Policy

The Council monitors the creditworthiness of the counterparties used. The Council's lending list contains only counterparties of high credit quality. Credit quality is assessed through the size of the asset base of the counterparty, and the credit ratings awarded by independent credit rating agencies such as Fitch.

The asset base of counterparties is monitored on an annual basis when the Statement of Accounts for each counterparty is issued. Credit ratings are regularly monitored and are verified prior to investments being made.

Credit ratings of counterparties are available from credit agencies (Fitch, Standard & Poor, and Moody's). Advice on the credit worthiness of counterparties is also obtained from the Council's Treasury advisors.

If a counterparty on the current lending list is found to be of insufficient credit quality, the Council will not engage with that counterparty until it is satisfied that credit quality has improved. Treasury officers continue to monitor counterparties that are not currently on the lending list, and will add counterparties of high credit quality to the lending list in consultation with the Portfolio Holder for Finance.

The Council has not invested outside the United Kingdom since 2006, and currently no foreign counterparties are contained within the list (with the exception of Santander UK Plc, which is a UK bank under Spanish ownership). Foreign counterparties are monitored, and if sufficient credit quality is proved, may be added to the list in consultation with the Portfolio Holder for Finance.

Sole reliance will not be placed on credit ratings. The Council will continue to monitor reports in the press, market data and information on government support when reviewing credit worthiness. All counterparties on the long term lending list are also covered by the government's Credit Guarantee Scheme.

All Long Term Investments will be carried out in consultation with the Finance Portfolio Holder and the S151 Officer.

Treasury Limits and Prudential Indicators 2017/18 to 2023/24

The revised CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance, in accordance with Section 3 of the Local Government Act 2003, require the Council to determine and review the level of borrowing that it can afford.

The Codes require a number of indicators to be formally set, on a rolling basis, for 2018/19 actuals and forecasts for the following three years. Longer term forecasts, in line with the MTFS, have also been calculated. The Council must have regard to the following when setting these indicators:

- Service Objectives
- Stewardship of Assets
- Value for Money
- Prudence and Sustainability
- Affordability and Practicality

The purpose of these indicators is to ensure that total capital investments and, in particular, the effect of these investments on the Council Tax level is 'acceptable'.

The Prudential Indicators set for 2019/20 are shown in Schedule 2 below. An explanation is provided for each indicator.

SCHEDULE 2 - PRUDENTIAL INDICATORS

1) Ratio of Financing Costs to Net Revenue Stream

The actual ratio for 2017/18, and estimated ratios for 2018/19 to 2023/24 are provided below.

2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
4.8%	2.2%	2.6%	10.9%	18.8%	19.0%	18.9%

The ratio is calculated by comparing the financing cost of all borrowing with the revenue stream through Council Tax, general grants and Retained Business Rates. It is positive as there are existing and potential borrowing costs arising through the Capital Programme, while government grant and tax revenues reduce

2) Approved Capital Expenditure

The Capital Expenditure estimates are summarised below. The estimates come from the approved schemes in the Capital Budget, and does not include unapproved or proposed schemes until they are agreed by the Cabinet or Council.

2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
2,126	2,228	5,684	1,628	1,628	1,628	1,628

3) The Capital Financing Requirement

The Capital Financing Requirement (CFR) is used to assist in deciding whether capital expenditure is affordable, by measuring the underlying need to borrow. The indicator is calculated by matching fixed assets and projected capital expenditure to capital resources applied. The difference between the two, if positive, represents unfinanced capital expenditure to be financed by borrowing. The definition of unfinanced capital expenditure includes finance leases and PFI arrangements. Long Term borrowing should not exceed the CFR.

	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Opening CFR	**9,084**	**9,781**	**10,233**	**62,007**	**109,100**
Unfinanced Capital Exp	1,347	557	51,978	48,333	33,333
MRP	(650)	(105)	(205)	(1,240)	(2,182)
Closing CFR	**9,781**	**10,233**	**62,007**	**109,100**	**140,252**

The above table reflects the potential impact of the schemes outlined in the Regeneration Strategy approved by Council in November 2018. However, these are not currently approved as they are subject to further business cases.

4) Authorised Limit for External Debt

To ensure good cashflow management, there is occasionally a need to borrow in the short term. Authority for any such borrowing is delegated to the S151 Officer. There are some circumstances where long term borrowing to support the Capital Programme is required to finance major capital projects or investment property purchases. The long term limits set in this report are based on the projected Capital Financing requirement over the period of the Medium Term strategy, and will be the maximum permissible amount of borrowing.

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Borrowing Authorised Limit	10,000	15,000	65,000	115,000	145,000
Other Long Term Liabilities	500	500	500	500	500

TREASURY MANAGEMENT INDICATORS

1) Operational Boundary for External Debt

The purpose of this indicator is to serve as a warning that the authorised limit for external debt is close. It has been set at £2M below the authorised limit.

	2017/18 Estimate £'000	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Borrowing Operational Limit (Up to 1 Yr)	8,000	13,000	63,000	113,000	143,000
Other Long Term Liabilities	500	500	500	500	500

2) Interest Rate Exposures

Setting upper limits for variable and fixed interest rates provides a range in which the authority manages exposure to fixed and variable interest rates. Although fixed rates bring security to long term returns, variable rate investments can give the flexibility to maximise returns when interest rates are expected to increase. The indicators set will allow this flexibility. Cash and investments maturing within 3 months are considered to be variable rate investments.

Upper Limit for Fixed Rate Exposure

2017/18 Actual	2018/19	2019/20	2020/21	2021/22	2022/23
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Upper Limit for Variable Rate Exposure

2017/18 Actual	2018/19	2019/20	2020/21	2021/22	2022/23
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Principal Sums Borrowed

Principal Borrowed	Outstanding balance	Notes
£4,000,000	£3,488,058	PWLB borrowing to support the refurbishment of the Plaza in 2012-2013. 30 year loan maturing 2042.

Schedule 3 - Borrowing and Lending List 2019/20

Sector Credit Rating	Institution	Maximum duration	Maximum amount (applies to group as well as individually)
	RBS Group		
Blue	Royal Bank of Scotland	364 Days	Lower of £3 million or half of total investments
Blue	National Westminster Bank	364 Days	Lower of £3 million or half of total investments
	Lloyds Group		
Orange	Bank of Scotland	364 Days	Lower of £5 million or half of total investments
Orange	Lloyds Bank	364 Days	Lower of £5 million or half of total investments
	Other Institutions		
Orange	HSBC Bank	364 Days	Lower of £5 million or half of total investments
Red	Standard Chartered Bank	6 months	Lower of £5 million or half of total investments
Red	Barclays	6 months	Lower of £5 million or half of total investments
Red	Santander	6 months	Lower of £3 million or half of total investments
Red	Abbey National Treasury Services	6 months	Lower of £3 million or half of total investments
Red	Close Brothers	6 months	Lower of £5 million or half of total investments
Red	Goldman Sachs International Bank	6 months	Lower of £5 million or half of total investments
	Building Societies		
Red	Nationwide Building Society	6 months	Lower of £3 million or half of total investments
Red	Coventry Building Society	6 months	Lower of £5 million or half of total investments
Green	Leeds Building Society	100 Days	Lower of £5 million or half of total investments
Orange	UBS	364 Days	Lower of £5 million or half of total investments
Green	Skipton	100 Days	Lower of £3 million or half of total investments
Green	Yorkshire	100 Days	Lower of £5 million or half of total investments

Supplementary to the above, investments may be placed under the following criteria:

NatWest Call Account - Up to £5 million may be invested in the National Westminster SIBA account subject to the group maximum and the 50% rule (BLUE rated)

Central Government - Unlimited investments may be placed in the government's Debt Management Office

Local Authorities - Up to £5 million may be invested with any other Local Authority subject to the group maximum and 50% rule (assuming a RED rating for all LAs)

Long term investments will be at the discretion of the Chief Finance Officer.

NO INVESTMENT IS CURRENTLY UNDERTAKEN WITH FOREIGN BANKS

Key to Risk ratings used for Lending List:

Yellow = Stable Outlook, maximum recommended duration 60 months
Purple = Negative outlook maximum recommended duration 24 months
Blue = Negative watch maximum recommended duration 12 months
Orange = Positive watch maximum recommended duration 12 months
Red = Evolving Outlook maximum recommended duration 6 months
Green = Evolving Watch maximum recommended duration 100 Days
White = Rating withdrawn maximum recommended duration 0 months

Schedule 4 – Minimum Revenue Provision Policy 2019/20

MRP on Finance Leased assets prior to 2017

The Council holds assets which are financed through a Finance Lease, as defined by International Financial Reporting standards. Where assets are financed in this way, MRP is charged over the life of the asset or, where this is not practical, over the life of the lease.

Prudential Code debt incurred prior to the year 2019/20 and onwards in relation to operational assets

The Council will calculate the amounts for existing external borrowing using the annuity method, and for existing internal borrowing using the Depreciation method, whereby provision is made in accordance with the standard rules for depreciation accounting, until provision made equals the original amount of debt

Prudential Code debt incurred in the year 2017 and onwards in relation to income generating property acquisitions

The Council will calculate the amounts for MRP for 2019/20 by applying an annuity formula incorporating a PWLB long-term borrowing rate, commensurate in duration to the estimated life of the item purchased/built to the apportionment of the value attributed to each financial year's opening CFR in relation to such income generating capital expenditure where the item purchased/built is expected to have a life of up to 50 years or more.

Prudential Code debt incurred in the year 2017 onwards in relation to Operational assets

The Council will apply the following methodology for MRP in relation to operational assets:

- Annuity method Asset life - Annuity method, which works on the basis of a mortgage type repayment. (MRP Commencement on operational properties can be postponed until the financial year after asset becomes operational).

- Borrowing where capital receipts are expected to repay borrowing prior to the project becoming operational; MRP will be charged in the year in which capital receipts are received.