North Lanarkshire Council
Report

Finance and Resources Committee

☒ approval ☐ noting **Ref** PH/JQ **Date** 6 January 2019

Treasury Management Strategy 2019/2020
Treasury Management and Prudential Indicators 2019/20 to 2021/22

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Executive Summary

This report fulfils the key requirements of the Local Government Act 2003 in that it:

- Outlines the Treasury Management Strategy for 2019/2020 in accordance with the CIPFA Code of Practice on Treasury Management.
- Reports on the treasury and prudential indicators as required by the above code and the CIPFA Prudential Code for Capital Finance in Local Authorities.

Recommendations

It is recommended that:

a) Committee endorses the Treasury Management Strategy 2019/2020 and adopts the Treasury Management and Prudential Indicators for 2019/2020 to 2021/2022 and the policy on repayments of Loans Fund advances 2019/20 set out within Appendix 1 to this report.

b) Remits the Treasury Management Strategy to the Council for approval.

Supporting Documents

Council business plan to 2020	Improve the council's resource base
Appendix 1	Treasury Management Strategy 2019/2020 and the Treasury Management and Prudential Indicators for 2019/2020 to 2021/2022 (see attached).

1. Background

1.1 Each year, in line with the Code of Practice, the Council produces a Treasury Management Strategy. The Treasury Strategy Statement 2017/2018 approved by Committee on 1 March 2017, set out the Treasury Management policies, practices and activities undertaken by the Finance for Business Solutions in compliance with the Code.

1.2 In addition, the Treasury Management Strategy outlines the Prudential and Treasury Indicators introduced and monitored on a regular basis to demonstrate that the Council's investment plans are managed within a sound financial environment. This report now updates the TM Strategy for year 2018/2019.

1.3 This Strategy continues to emphasise, under the revised Code of Practice, an enhanced role for members in terms of accountability and awareness. The Policy & Resources (Finance and Organisational Business) Sub-Committee is responsible for the development of the Strategy, its implementation and monitoring while the Audit and Governance Panel has a specified role in the effective scrutiny of the Treasury Management Strategy and policies as part of its work on reviewing the internal financial controls of the Council.

1.4 The report also reflects The Local Government Investments (Scotland) Regulations 2010 which were enacted from 1 April 2010 containing a requirement for the annual investment strategy and annual investment report to be approved by the full Council and not delegated to a committee or sub-committee. As a result, this Strategy, if endorsed by committee, should be remitted to the Council for approval.

2. Report

2.1 The Strategy fully detailed within Appendix 1 covers the:

- Council's debt and investment projections;
- expected movement in interest rates;
- Council's borrowing and investment strategies;
- treasury management performance measures;
- policy on repayment of loans funds advances;
- treasury management/prudential indicators.

2.2 The requirements of the Local Government Investments (Scotland) Regulations 2010 have been incorporated within the 2019/2020 Strategy.

2.3 The introduction of the Prudential Code for Capital Finance in Local Authorities in April 2004 brought about a change to capital spending controls giving councils the freedom to invest in capital projects without the limitation of legislative controls, provided their programmes can be shown to be affordable, prudent and sustainable.

2.4 This report builds on this framework outlining the Council's prudential and treasury management indicators for 2019/2020 to 2021/2022. The key mandatory indicators required by both the Treasury Management Code and the Prudential Code are illustrated for these years and, with a view to more fully informing the decision making process; local indicators are also included.

3. Equality and Diversity

3.1 Fairer Scotland

There are no specific impacts on Fairer Scotland.

3.2 **Equality Impact Assessment**

There are no specific impacts on Fairer Scotland.

4. Implications

4.1 **Financial Impact**

None identified.

4.2 **HR/Policy/Legislative Impact**

None identified.

4.3 **Environmental Impact**

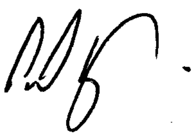
None identified.

4.4 **Risk Impact**

None identified.

5. Measures of success

5.1 The Treasury Management Strategy and the Prudential/TM indicators illustrated in the appendix provide members with assurance that the key objectives of the Prudential Framework (i.e. prudence and affordability) will be satisfied and the inherent risks of Treasury Management risks will be controlled effectively and efficiently providing value for money. When taken together, the indicators illustrate that the proposed capital investment plans for 2019/2020 onwards are prudent and affordable. Healthy prudential margins from 2019/2020 onwards justify the investment levels, the cost or affordability of which is contained within the existing financial strategies.



Paul Hughes
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Members seeking further information on the contents of this report are asked to contact Joseph Quinn, Finance Manager (Systems, Capital and Treasury Management) on telephone number 01698 302061.

Treasury Management Strategy 2019/2020
&
Treasury Management Indicators & Prudential Indicators
2019/2020 to 2021/2022

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1. Introduction

1.1 Treasury Management (TM) deals with the borrowing and investment activity of the Council, and is an integral part of the financial management of the Council's affairs. It seeks to ensure that both capital borrowing requirements and day to day revenue cash transactions are fully funded. Its importance has increased as a result of the additional freedoms provided by the Prudential Code, and there are specific treasury management and prudential indicators included in this Strategy that require approval.

1.2 The treasury management indicators and prudential indicators outlined within section 7 and 8 of this appendix consider the affordability and impact of capital expenditure decisions, whilst the treasury management service considers the effective funding of these decisions. Together these form part of a process to ensure the Council meets its balanced budget requirement.

1.3 The Council's treasury management activities are strictly regulated by statutory requirements and a professional code of practice. In accordance with the Council's financial regulations the Council adopts the revised edition of the CIPFA "Treasury Management in the Public Services" Code of Practice (the Code) issued in December 2017 including the Treasury Management Policy statement and the adoption of the key clauses outlined within Annex A. The Council also complies with the revised edition of the CIPFA Prudential Code issued in December 2017 and the setting of three year prudential indicators.

1.4 The revised Prudential Code includes a new requirement for local authorities to produce a Capital Strategy which has been prepared and will be submitted to the Policy and Strategy Committee, The purpose of the Capital Strategy being to demonstrate that the Council takes capital expenditure and investment decisions in line with the Councils service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

1.5 The Prudential Code requires that the Councils Capital Strategy be aligned with the Treasury Management strategy. To ensure this integrated approach between the capital expenditure plans and Treasury Management strategy, the Council will continue to incorporate the Prudential Indicators with regard to capital expenditure within this document.

1.6 The Treasury Management strategy outlines the Council's debt position, including the anticipated level of debt and the authorised borrowing limit. The capital expenditure plans determine the borrowing need of the Council and the Treasury Management team essentially monitor the longer term cash flow planning, to ensure the Council can manage its capital spending obligations

1.7 The Code re-affirms the Audit and Governance Panel in its role providing effective scrutiny of the Treasury Management Strategy and policies while the Finance and Resources Committee remains responsible for the development of the Strategy, its implementation and monitoring.

1.8 The Code emphasises members' responsibility in this area, requiring increased member awareness to enable greater member scrutiny of treasury management activity. The Treasury Management team provide in house awareness sessions, with members also provided with the opportunity to review the Councils Treasury Management Practices manual and attend the office to observe the daily Treasury Management activity.

1.9 In accordance with the CIPFA TM Code recommendations, the Council has a Treasury Management advisory contract in place, with the current providers being Arlingclose Ltd, who provide specific advice on investment, debt and capital finance issues.

1.10 Per the CIPFA TM Code, the Council adopts a high level approach to setting policies for borrowing and investment activity, having in place an appropriate scheme of delegation and ensuring all staff employed in Treasury Management have the suitable skills and resources to carry out delegated treasury management activities effectively, efficiently and achieving value for money.

1.11 Treasury Management staff regularly attend training courses, seminars and workshops provided by the Council's advisors, the CIPFA Treasury Management Forum and other ad hoc providers including brokers and financial institutions. Staff also receive regular treasury related updates/information and newsletters on a daily/weekly basis via email from banks and other financial institutions. Staff also have access to treasury related websites to maintain awareness of treasury management issues.

1.12 The requirements of the Code have been incorporated within the 2019/2020 Treasury Management Strategy and in the preparation of the Treasury Management Indicators & Prudential Indicators for 2019/2020 to 2021/2022.

Treasury Management Strategy 2019/2020, Treasury Management Indicators and Prudential Indicators 2019/2020 to 2021/2022

1.13 The Code of Practice requires the Council to produce reports on its Treasury Management policies, practices and activities on a regular and ongoing basis. This encompasses the preparation and approval of an Annual Strategic Plan, which defines the arrangements for managing the Treasury Management function in the incoming year. This report details the proposed Strategy for 2019/2020.

1.14 This Strategy covers:

- The Council's debt and investment projections;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury Management performance indicators;
- Specific limits on treasury management activities.

1.15 The requirements of the Local Government Investments (Scotland) Regulations 2010 have been incorporated within the 2019/2020 Strategy, including the preparation of an investment strategy which must be approved by the full Council.

2. Annual Borrowing Requirement 2019/2020

2.1 At the beginning of 2019/2020, it is anticipated that the Council's total debt outstanding including long term liabilities will amount to £855.6m. It is anticipated that during 2019/2020 there will be a total capital investment of £268.5m comprising capital expenditure of £208.5m with an additional £60.0m of capital expenditure under credit arrangements.

2.2 Reflecting the latest data available, which may be subject to variation as capital programmes evolve and reviewed, the capital spend plans for 2019/2020 encompass expenditure in the following areas, Composite Services (£56.7m), Schools & Centres 21 (£12.0m),Children's & Young People (£11.3m), City Deal (£6.0m) and the HRA 30 year financial plan including New Build and Buy Back Scheme (£122.5m). These estimates of expenditure may be subject to variation as capital programmes evolve and reviewed.

2.3 The capital expenditure under credit arrangements of £60.0m relates to the anticipated completion of the first phase of the Cumbernauld Academy and Cumbernauld Theatre (£37.0m) in July 2019 which has been financed under a DBFM in conjunction with the private sector and the Scottish Futures Trust. The balance of £23.0m relating to the Clyde Valley Residual Waste facility due to become operational during 2019/2020. Under the requirements of the accounting standards IAS 17 Lease and its successor IFRS16 Accounting for Leases, the nature of the financing and business model requires the recognition of capital expenditure under a credit arrangement.

2.4 The capital expenditure will be resourced by capital grants and contributions, capital receipts and capital funded from current revenue (CFCR) with the balance of £161.5m representing capital investment funded by borrowing and credit arrangements. This represents an in year borrowing need which will contribute towards the net increase in the Capital Financing Requirement (CFR). Table 7 within Section 8 below sets out the revised Capital Expenditure plans for 2018/2019 and forecast for the period 2019/2020 to 2021/2022.

2.5 During 2018/2019 the Council has used a combination of long term borrowing, internal cash balances, short term borrowing, plus credits due to the scheduled principal repayments to the loans fund from service departments (annuity based) to meets its borrowing requirement . This strategy adopted in the light of interest rate expectations, the management of carrying costs and the availability of short term borrowing up to 364 days at attractive rates. A similar borrowing strategy is anticipated during 2019/20202.

2.6 To meet the capital financing requirement, the replacement of maturing long term debt and the maintenance of cash balances necessary to meet on going daily liquidity requirements, it is estimated that the Council will source long term borrowing of £113.0m in 2019/2020, £179.0m in

2020/2021 and £193.0m in 2021/2022.

2.7 These borrowing projections exclude temporary borrowing undertaken, with average levels held expected to be approximately £170.0m over the three year period, with a further £26.0m of municipal bank balances anticipated to be available to the Council on a short term basis. This level of short term borrowing proving attractive to the Council, due to the low rates currently available, with these rates anticipated to remain at these levels for the foreseeable future.

2.8 The Council's borrowing requirement is set firmly within the framework of wider Council activity and will be driven by the corporate plan, capital strategy and the medium term financial plan.

3. Outlook for Interest Rates

3.1 The major external influence on the Council's treasury management strategy for 2019/20 will be the implications of the UK's expected exit from the European Union and agreeing future trading arrangements.

3.2 The uncertain political situation surrounding Brexit has produced the prospect of divergent paths for UK monetary policy. Due to the short time frame for a Brexit withdrawal deal to be agreed and the possibility of an extended period of uncertainty over the possible outcomes, forecasting interest rates, whilst never an exact science, has become more difficult.

3.3 The Council's Treasury Management advisors Arlingclose Ltd predict that the Official Bank Rate will rise by 0.25% to 1.00% towards the latter part of 2019 although some economists anticipate, based on the minutes of the MPC meetings, the rate may be held at 0.75% until early 2020. Until matters become clearer regarding Brexit, future expectations for higher short term rates are subdued, with on-going decisions being data dependant e.g. inflation , against a backdrop of the EU exit, casting a shadow over monetary policy decisions.

3.4 Medium to longer term interest rates are expected to increase marginally during 2019/2020, compared to current levels, based on a Brexit transitionary period or delayed withdrawal. Although it is generally accepted, similar to short term rates, whilst uncertainty continues over the terms and impact of the EU exit, forecasting medium to longer term rates with any degree of certainty is difficult and will be monitored throughout the year.

3.5 Annex D provides details of the forecast official Bank rate, 1 year London Inter-bank Bid Rate (LIBID) and PWLB rates over the next three years which are underpinned by the economic risks and uncertainties outlined in the preceding paragraphs above.

3.6 The Council's main source of borrowing is the Public Works Loan Board (PWLB), with the board per the PWLB Circular 147, maintaining a 1.00% margin above the equivalent gilt yield with any forecast movements in PWLB interest rates closely correlated to gilt movements.

3.7 Table 1 below includes forecast average PWLB rates anticipated for a range of maturity periods over the next 3 years based on the forecast per Annex D. The interest rates shown take account of the 0.20% reduction in the standard rates, which will apply, if the Council, as expected meets the qualifying criteria for the certainty rate in 2019/2020.

Annual Average	Bank Rate	3 months Money Market Rate	LIBID Rate	PWLB Rates			
			1 year	5 year	10 year	20 year	50 year
2019	0.81%	0.99%	1.29%	1.84%	2.23%	2.61%	2.56%
2020	1.19%	1.35%	1.70%	2.20%	2.64%	2.96%	2.91%
2021	1.25%	1.40%	1.70%	2.20%	2.65%	3.00%	2.95%

Table 1 – Medium Term Interest Rate Estimates (averages)

3.8 These projections underpin the borrowing and investment strategies outlined in the following paragraphs.

4.0 Annual Borrowing Strategy 2019/2020

4.1 The Council uses a combination of internally accumulated cash funds, temporary borrowing (up to 364 days) and external borrowing from both the markets and PWLB to source its capital financing requirement (CFR). In recent years the Council has used its revenue reserves/balances plus working capital to support its capital programme generally known as internally accumulated cash funds. This minimises the amount of investment balances held, managing credit and counterparty risk and the impact of low investment returns, resulting in the Council currently being in an under borrowed position, which is in line with the strategic approach adopted.

4.2 The borrowing strategy to meet the current year (2018/2019) capital financing requirement of £97.6m (excluding credit arrangements), has been to use a combination of long-term borrowing, internal cash balances, and short term borrowing where available at attractive rates plus credits due to the scheduled principal repayments. This strategy supported by efficient cashflow management, interest rate outlook, forecast balance sheet analysis of reserves and provisions and effective treasury risk management. It is proposed that a similar borrowing strategy be adopted to meet the capital financing requirement of £101.4m in 2019/2020.

4.3 In July 2019, the first phase of the Cumbernauld Academy and Cumbernauld Theatre (£37.0m) is anticipated to be completed. This has been financed under a DBFM facility in conjunction with the private sector and the Scottish Futures Trust. The Clyde Valley Residual Waste facility (£23.0m) is also due to become operational in December 2019. Under the requirements of the accounting standards and proper accounting practice, IAS17 Leases and successor IFRS16 Accounting for Leases, the nature of the financing and business model require the recognition of capital expenditure under a credit arrangement. There has therefore been a corresponding increase in the Council's 2019/2020 Capital Financing Requirement of £60.0m to reflect this included in Table 7 within Section 8.0 below.

4.4 At the 31 March 2020 it is anticipated that the Capital Financing Requirement will have increased by a total of £161.5m, which comprises the capital investment funded by borrowing.

4.5 It is estimated that the Council will source long term borrowing of £113.0m in 2019/2020, £179.0m in 2020/2021 and £193.0m in 2021/2022 to meet the on-going capital financing requirements, the replacement of maturing long term debt and the maintenance of cash balances necessary to meet on going daily liquidity requirements.

4.6 These borrowing projections exclude monies borrowed and repayable over a shorter period, with average levels held expected to be approximately £170.0m over the three year period, with a further £26.0m of municipal bank balances projected to be available to the Council on a short term basis, based on current depositor levels. This level of short term borrowing proving attractive to the Council due to the low rates currently available, with these rates anticipated to remain at these levels, for the foreseeable future.

4.7 The Council's capital expenditure planning processes and investment/borrowing analysis enables it to time its borrowing to take advantage of opportunities that may arise to achieve beneficial borrowing rates, minimising interest rate risk.

4.8 The timing of new borrowing will also take into account the level of cash balances and investments held so that there may be an option of postponing borrowing and continuing to use these balances in the short term, particularly given the low investment returns currently prevailing.

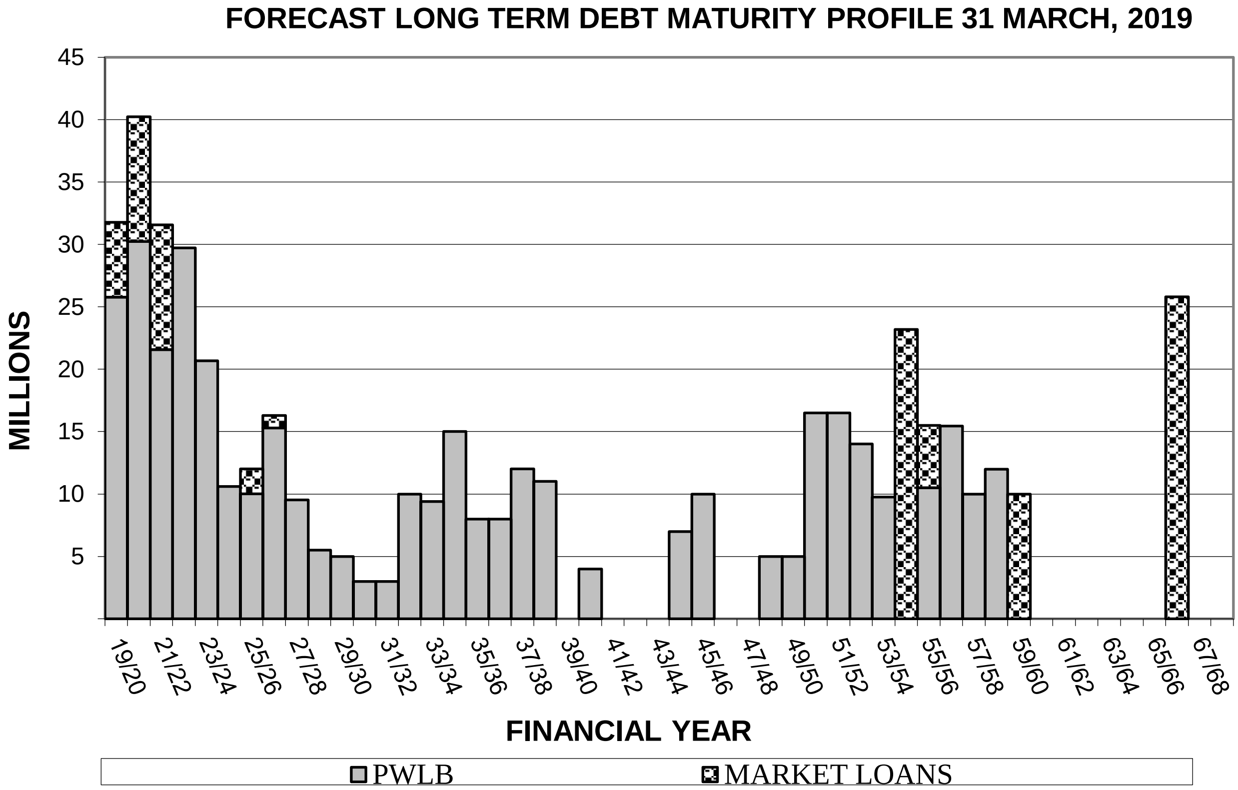
4.9 The Councils borrowing strategy will be underpinned not only by the absolute borrowing rates but also the relationship between short and long term interest rates. This difference creating a 'cost of carry' for any new longer term borrowing where the proceeds of borrowing are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. The cost of carry is likely to be an issue for the foreseeable future.

4.10 The Council will closely monitor movements in long and short term interest rates to manage its interest rate risk.

4.11 The repayment terms of new borrowing will take account of the debt maturity profile to ensure that an acceptable amount matures in any one year, managing the refinancing risk, whilst being undertaken at the most advantageous rate.

4.12 The forecast debt maturity profile at the 31 March 2019 per the graph below highlights that there are a number of points in the maturity spectrum at which the Council has little or no debt due for repayment. In general the current maturity profile provides the Council with flexibility in determining the maturity period for new borrowing whilst ensuring the strategy adopted minimizes the debt interest costs.

4.13 It should be noted that the debt maturity profile per the graph is based on the maturity date of LOBO (Lender's Option Borrower's Option) loans whilst noting the Code requires the Council to classify LOBO type loans as having a potential maturity in the year where options or calls exist. A LOBO option is called, when the lender exercises its right to amend the interest rate on the loan, at which point the Council can accept the revised terms or reject them and repay the loan.



4.14 The Council currently has a £29.0m exposure to LOBO loans which can be called within 2019/2020 which represents less than 6.0% of the projected long-term debt held at the 31 March 2019.The interest rates on the LOBO loans held range from 5.890% to 11.625%, averaging almost 7.800%.

4.15 A comparison of the LOBO loan option 2019/2020 call dates to the maturity date is provided within Table 2 below:

Loan Value	2019/2020 Call Dates	Year of Maturity	Current Interest Rate
£1,000,000	27 July & 27 January	2019/2020	11.625%
£1,000,000	13 July & 13 January	2019/2020	9.400%
£2,000,000	15 August & 15 February	2019/2020	11.375%
£2,000,000	13 September & 13 March	2019/2020	11.125%
£10,000,000	15 June & 15 December	2021/2022	5.890%
£2,000,000	1 June & 1 December	2025/2026	10.625%
£1,000,000	3 April & 3 October	2026/2027	10.937%
£10,000,000	25 February	2059/2060	7.000%

Table 2 –Lobo Loans Summary

4.16 Based on the current and the forecast interest rates, the likelihood of these loans being called has been assessed as minimal. In the event that the call option were to be exercised, the default position will be the repayment of the LOBO without penalty, with the associated treasury management risks (refinancing/interest rate/liquidity) managed in line with the borrowing strategy for other maturing debt.

4.17 The Council's Treasury Management advisors provide forecasts of interest rates for different maturity dates in future years. Using these forecasts, it is projected over the years 2019/2020, 2020/2021 and 2021/2022 respectively, the borrowing rates will average between 1.84% and 2.20% (up to 5 years) and between 2.56% and 3.04% (up to 50 years)

4.18 Uncertainty over future interest rate movements increases the risks associated with treasury management borrowing activity, therefore it should be noted, that the period over which any new borrowing is taken will be guided by movements and fluctuations in the interest rate yield curve and capital financing requirement.

4.19 No more than 25% of the total debt outstanding shall be taken from any one lender at any one time, except for borrowing from Public Works Loan Board (or its successor body), unless expressly approved by the Head of Business for Financial Solutions in line with current policy.

4.20 The Council's borrowing options should be considered taking account of PWLB Circular 147, which increased the average interest rate on all new PWLB loans to an average 1.00% above the Government's cost of borrowing. This applies to all fixed and variable rate PWLB loans across the maturity spectrum.

4.21 To partially alleviate this, the Government in 2012-13 introduced a 20 basis point (bps) discount on loans from the Public Works Loan Board (PWLB) under the prudential borrowing regime with this rate being offered to Councils that can demonstrate transparency in its long-term borrowing and associated capital spending plans.

4.22 The Council must apply annually to be eligible for this discount and in October 2018 the Council was successful in its application to the PWLB, meeting the criteria and obtaining eligibility for the certainty rate discount on PWLB loans, accessible from 1 November 2018. Note within Table 1 above the medium term interest rate average forecasts for the PWLB interest rates include the 20 basis point (bps) discount.

4.23 The Council will consider a number of borrowing structures in 2019/2020 which will include

- Internally accumulated cash funds.

  The Council may temporarily use its cash backed revenue reserves/balances plus working capital to support its capital programme generally known as internal borrowing, in lieu of future short and long term borrowing. This approach may be adopted to manage the level of investment balances held, managing credit and counterparty risk and the impact of low investment returns and cost of carry.

- Short-term Borrowing

  The Council may borrow on a temporary basis (up to 364 days) which would significantly reduce the carrying costs whilst managing the refinancing and interest rate risk. For example for loans up to 364 days, other local authorities are currently offering better terms than those of the PWLB for a 1 year loan, with this option therefore being more attractive. This may also be used to meet cashflow demands to cater for temporary fluctuations in cash balances held on a daily basis.

- PWLB Variable Rate Loans

  These loans are available for periods of up to 10 years with the interest payable generally linked to movements in short term rates, with increases in interest rates expected to be limited over the next three years and costs expected to remain cheaper than long term rates. Liquidity within the short term borrowing market may supercede the potential benefits of this type of borrowing.

- PWLB Fixed Rate Maturity Loans (< 20 years)

  New loans for periods up to 20 years, which fit in with the existing debt maturity profile, are attractive, providing relatively low refinancing risk as short term rates are expected to remain lower than their longer dated counterparts in the foreseeable future. These could offer greater flexibility to repay/reschedule on beneficial terms in the future, depending on the volatility of interest rates.

- PWLB Equal Instalment Payment and Annuity Loans (< 20years)

  These loans are different from fixed rate maturity loans as the repayments are made up of both interest and principal with the principal outstanding reducing at 6 monthly intervals throughout the life of the loan, with corresponding reduction in interest payments on the balance outstanding. The interest rates payable are lower than the fixed rate maturity loans for short and medium dated maturities with an additional benefit being a smoother debt maturity profile on the debt e.g. £2.5m every year for 10 years as opposed to £25m payable in 10 years. This also spreads the refinancing risk and may also present beneficial opportunities dependent upon the interest yield curve at the time repayments are due.

- Medium/Long Term Fixed PWLB Loans (> 20 years)

  These loans will be considered in conjunction with managing the current debt maturity profile, the higher interest rate profile and the additional cost of carry. These loans currently offer less flexibility in terms of debt restructuring as a result of PWLB Circular 147, which left the premature repayment rates unaltered. As a result these are the least attractive option at present but circumstances will be monitored to identify beneficial opportunities to source PWLB loans within this maturity spectrum.

- Market Loans

  At present availability is limited, but in the future these loans may become more attractive given the 1.0% margin on PWLB loan rates, as these loans could be cheaper than similar long term PWLB loans despite this being partially offset by the certainty rate. In addition to the possibility of advantageous interest rates, there is also the ability to fix the rate for receipt at a date in the future, avoiding the cost of carry for example to cover future maturities in 2020/2021 and 2021/2022.

- Local Authority Bonds

  Local authority bonds can be issued by a public stock exchange listing, a private placement or a retail bond but would only become a viable option if the size of funds to be borrowed reached a minimum of £150m.Prior to undertaking a bond issuance, the Council would carry out a due financial diligence process. Factors to be considered would be the type of bond issue e.g. index linked, the set-up costs, the timing of the issue, the potential cost of carry, the credit rating process, the projected long term capital financing requirement position and the nature of the projects being funded e.g. income streams index linked.

- Leasing

  On occasions, leasing will be used if an option appraisal review identifies this as being advantageous to the Council.

4.24 As part of its borrowing strategy, the Council will seek to identify and evaluate opportunities for debt rescheduling to accrue potential benefits including:

- achievement of cash interest savings, without exposing the Council to additional risk;
- ensuring a better balanced maturity profile and volatility ratio; and
- achieving the desired borrowing strategy.

4.25 The Council will continue to monitor its debt portfolio and movements in interest rates across PWLB interest rate structures, to identify opportunities to generate interest savings, whilst strategically managing any premiums or discounts incurred as a result of the rescheduling/restructuring.

4.26 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 legislation enacted on 1 April 2016, and associated Local Government Circular 7/16 Statutory Guidance on Loans Fund Accounting provide the legislative background governing the Council's borrowing activity.

Treasury Management Strategy 2019/2020, Treasury Management Indicators and Prudential Indicators 2019/2020 to 2021/2022

5.0 Annual Investment Strategy 2019/2020

5.1 Investment Regulations

5.1.1 The Investment Regulations became statutory instruments by force of the Scottish Parliament on the 1 April 2010 in conjunction with the associated Code on the Investment of Money by Local Authorities. This requires the Council to approve all the types of investments to be used and set appropriate time and money limits for the amount that can be held in each investment type. These types of investments are termed permitted investments and any investments used which have not been approved as a permitted investment will be considered as ultra vires.

5.1.2 As a result of the second Markets in Financial Instruments (MiFID III), from the 3 January 2018, local authorities were to be treated as retail clients, with the option to opt up to professional status provided certain criteria was met. The Council was successful in meeting the conditions to opt up to professional status and has done so in order to maintain its MiFID status prior to January 2018. The Council therefore continues to have access to products including money market funds, pooled funds, treasury bills, bonds shares and to financial advice.

5.2 Risk Management

5.2.1 In accordance with the revised code, the Council recognises the importance of risk management and the effective management of all the associated treasury management risks encountered in working with the approved permitted list of investments. The treasury management risks and tools put in place to manage these risks include:

- **Credit and counterparty risk:** this is the risk of failure by a counterparty to meet its contractual obligations to the Council, particularly as a result of the counterparty's diminished creditworthiness and the resulting detrimental effect on the Council's capital or revenue resources. There are no counterparties where the risk is zero although AAA rated organisations have a very high level of creditworthiness. The Council has in place minimum credit criteria to determine which counterparties and countries are of high creditworthiness to enable investments to be made safely.

- **Liquidity risk**: this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk, the Council measures this risk on the basis as to whether or not instant access to cash can be obtained from each form of investment. The Council has developed a detailed cashflow model to record known and forecast income and payment events arising in the short, medium to long term.

- **Interest Rate Risk**: This is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately. To manage this risk, the Council takes a view of the future course of interest rates and formulates a Treasury Management Strategy accordingly, aiming to maximise investment earnings and minimise borrowing costs, whilst giving full regard to other treasury management risk factors including security and liquidity.

- **Price Risk Management**: This risk primarily relates to financial instruments that are regularly traded in the various financial market exchanges. This is the risk that the Council is required to redeem this type of investment prematurely at prices above and below the price on which the financial instrument was originally purchased (par value) and thus be subjected to the market conditions prevailing at that time. If the investment is held to maturity the principal sum is guaranteed with it being redeemed at par value. The Council will only use those which appear on its permitted investment list, if their redemption price is not expected to vary much during its short life or for example in the case of treasury bills they offer a higher rate of return than depositing in the Debt Management Account Deposit Facility for a similar level of security.

- **Legal and Regulatory Risk**: This is the risk that the Council itself or an organisation with which it is dealing in its treasury management activities fails to act in accordance with its legal powers or regulatory requirements and the Council suffers losses accordingly. In the event of any doubt as to the legal and regulatory issues the Council has recourse to its own in-house legal services team and also the Council's appointed treasury advisors Arlingclose Ltd. The Council also currently has in place a highly experienced and qualified Treasury Management team.

5.3 Permitted Investments

5.3.1 The permitted investments which may be used in the forthcoming year are:

a. Deposits with the Debt Management Account Facility (UK Government);
b. Deposits with other local authorities or public bodies;
c. Instant Access Accounts;
d. Call Accounts;
e. Term Deposits;
f. Money Market Funds;
g. Instant Access Funds held with Council's own bankers;
h. UK Government Gilts and Treasury Bills;
i. Supranational Bonds (e.g. World Bank);
j. Certificates of deposits with financial institutions (banks and building societies);
k. Covered Bonds;
l. Reverse repurchase agreements and other collateralised arrangements;
m. Investment properties;
n. Loans to third parties, including soft loans;
o. Loans to a local authority company;
p. Shareholdings in a local authority company;
q. Non-local authority shareholdings;
r. Subordinated debt in projects delivered via 'Hubco/DBFM' model

5.3.2 In respect of Money Market funds (MMF) listed per f) above, these funds invest in high-quality short-term fixed income instruments and adhere to very strict credit quality, diversification and maturity guidelines with preservation of capital constituting the primary objective. Prior to January 2019, the Council used Constant Net Asset Value (CNAV) Funds meaning for every £1 of principal invested the fund will return £1 of principal on withdrawal by the investor, plus interest with preservation of capital the prime objective.

5.3.3 However on the 21 January 2019, as a result of MMF Industry reform, the CNAV funds are no longer available and on this date two types of funds became available to the Council:

- a Public Debt CNAV f assets invested in government debt); and
- a 'Low Volatility NAV' (LVNAV) that is a hybrid between CNAV and VNAV

5.3.4 After scrutiny of the new products available, the Council continues to use money market funds, primarily using the LVNAV type as an investment instrument. It is worth noting that one of the main differences between the LVNAV and CNAV fund is the Council is no longer guaranteed preservation of capital i.e. for every £1 of principal invested the fund will no longer guarantee a return £1 of principal on withdrawal.

5.3.5 However the day to day operation of LVNAV funds is very similar and has many of the attractive features of the CNAV fund and the probability of the price changing and loss of capital, within the boundaries set for price changes i.e. "the collar", is widely regarded as de minimis. Therefore the use of these investments continue to remain within the risk appetite adopted by the Council per its investment approach.

5.3.6 Bail-in legislation which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK. Under the UK Financial Services Compensation Scheme and similar European Schemes most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options.

5.3.7 To manage the bail-in risk, covered bonds, reverse repurchase arrangements and other collateral arrangements with financial institutions are included within the permitted investment list. These investments are secured on the assets of the borrower, which limits the potential losses in the unlikely event of insolvency and would be exempt from bail-in.

5.3.8 Whilst there is no investment specific credit rating for these types of arrangements, the collateral upon which the investment is secured has a credit rating, with the highest of the collateral credit rating and the counterparty credit rating being used to determine cash and time limits. Note the combined secure and unsecured investments in any one bank should not exceed the cash limit for that counterparty.

5.3.9 Investments in subordinated debt in projects delivered via the 'Hubco/DBFM' model included within the permitted investments list will be only be undertaken, following a full risk/benefit analysis, subject to a maximum investment amount of £1.5m per project and for a maximum term of 30 years.

5.3.10 For cash investments, there is a risk of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates and for term deposits and loans if they are redeemed early. Therefore the Council will undertake these investments in conjunction with its cashflow/liquidity projections and medium term financial plans to manage this risk.

5.3.11 Within the TM code, it suggests the use of financial derivatives but given that the legal power to use derivative instruments remains unclear, the Council does not intend to use derivatives. Should the legal position change, the Council may seek to develop a detailed and robust risk management framework, governing the use of derivatives, but prior to adoption, full Council approval will be sought.

5.4 Investment Security

5.4.1 Although the yield on investment is a key consideration, the primary principle governing the Council's investment criteria is the security of its investments.

5.4.2 After this main principle the Council will ensure:

- It has sufficient liquidity in its investments, carefully selecting the maximum periods for which funds may prudently be committed also applying the Council's prudential and treasury management indicators covering the maximum principal sums invested.
- It maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and to continually monitor security.

5.4.3 The Council minimises risk by identifying those financial institutions that it may invest in to maximise security and liquidity of investment including the specification of maximum time and money limits for each type of permitted investment offered by financial institutions. The counterparty must meet the relevant credit rating requirement with the focus being on the minimum acceptable quality adding a further security overlay to the investment activity of the Council.

5.4.4 The Council utilises the research of the world's foremost providers of independent credit ratings. The ratings defining the likelihood of an investor such as the Council receiving their money back on the terms in which it was invested. (Long term Rating types and definitions are shown in Annex B).

5.4.5 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. For money market funds and other pooled funds the Council defines a high credit rating as those having a credit of A- or higher. Investments with organisations with long term ratings in the BBB long term category will therefore be restricted by cash and maturity limits.

5.4.6 The Council also supplements its credit rating information by accessing and applying additional operational market information before making any specific investment decision from the agreed pool of counterparties.

5.4.7 This additional market information will be applied to compare the relative security of differing investment counterparties and will include:

- Credit Default swap prices;
- Quality financial press;
- Share prices;
- Government support status / Bank Resolution and Recovery Directive;
- Annual Reports;
- Statements to the market; and
- Financial Regulations;

5.4.8 Should this additional market information raise concerns regarding the security of a financial institution, then subject to further investigation this may also result in removal from the list.

5.4.9 The creditworthiness of counterparties will be monitored regularly. The Council receives credit rating information from Arlingclose Ltd (the Council's advisors) as and when ratings change and counterparties are checked promptly. If a ratings change results in the counterparty failing to meet the Council's strict criteria, they are removed immediately from the list. Similarly if a counterparty rating is updated and they meet the Council's strict criteria, they will be added to the list.

5.4.10 Full details of the Council's investment approach including the type of investments, treasury management risks, associated controls, credit rating, money and time limits are shown in Annex C. The credit rating criteria indicated within the Annex stipulates a long term rating requirement as this is considered the ultimate driver of credit worthiness of financial institutions. This represents a rating agency view of an institutions capacity to honour its financial obligations and its vulnerability to foreseeable events. The Council in conjunction with its advisors will continue to monitor other information provided from credit rating agencies in terms of short term, individual rating, support rating and outlook.

5.4.11 The Council will give due care when considering the country, group and sector exposure of the Council's investments and will endeavour to have no more than 25% placed with any non-UK country at any time. A group of banks under the same ownership will be treated as a single organisation for limit purposes with industry /sector activity monitored regularly for appropriateness.

5.5 Investment Strategy

5.5.1 The Council, by efficient cashflow management and balance sheet analysis, will identify its liquidity requirements and the core funds within its cash balances that could be locked in over a longer period up to the maximum limits as defined within Annex C. This will achieve the optimum performance, spreading investment periods and security of return, subject to over-riding credit counterparty security.

5.5.2 The 2019/2020 Treasury Management Strategy has been developed assuming that the annual borrowing requirement and debt repayments, net of credits due to the scheduled principal repayments to the loans fund, will be fully funded by undertaking external borrowing. Therefore it is anticipated that the Council cash balances available for short term investment will be average approximately £30.0m throughout the period 2019/2020 to 2021/2022.

5.5.3 This projected balance being subject to variation dependant upon actual level and timing of external borrowing undertaken, which will reflect positive and negative movements in working capital and level of revenue reserves/balances held during the 3 year period.

5.5.4 All investment activity will be governed by the principles laid out within sections 5.1 to 5.5 above and 5.7 below.

5.6 Borrowing and the Investment of Money

5.6.1 The Council will not borrow more than or earlier than required with the prime intention to profit from the investment return of the extra sums borrowed.

5.6.2 Borrowing in advance will only be taken for risk management reasons subject to sound justification. When considering borrowing in advance the Council will balance investment risks, such as the credit and interest risks resulting from the temporary investment of the proceeds of borrowing, against the risk of adverse interest rate movements if borrowing is deferred. Consideration will also be given to the existing debt maturity profile over the medium term.

5.6.3 The Council will appraise all risk associated with advance borrowing activity and it will be subject to prior appraisal with subsequent reporting either within the mid year or annual reporting mechanism. This report will comply with the minimum data and analytical requirements outlined within The Local Government Investments (Scotland) Regulations 2010.

5.7 Non Treasury Management Investment Activity

5.7.1 As mentioned in the opening paragraphs, the CIPFA Treasury Management Code has recently been revised and now covers Non Treasury Management investment activity and has a new separate section covering this area .This activity would normally be for those investments made for policy reasons outside of normal Treasury Management Activity and may include:

- service investments held clearly and explicitly in the course of the provision and for purposes of operational services
- commercial investments which are taken mainly for financial reasons and to achieve a financial return

5.7.2 Normal treasury management activity would cover those investments which arise from the organisation's cashflows and debt management activity and ultimately represent balances which need to be invested until cash is required for use in the course of the Council's normal business.

5.7.3 For investments that fall outwith normal treasury management activity the Council will ensure that proper due diligence is carried out to ensure that there is a proper understanding as to:

- the powers under which the investment is made to ensure the activity is not illegal
- the service rationale behind the decision to undertake this type of investment
- the extent to which capital invested is placed at risk
- impact of any potential losses on the financial sustainability of the Council
- the specialist professional advice required to assist in the decision making process

5.7.4 The Council will carry out more careful risk assessment, as it recognises there may be instances where such investments do not give priority for security and liquidity over yield whether due the nature of the transaction itself e.g. commercial investments or for valid service reasons

5.7.5 Effective scrutiny will be carried out and the justification behind the decision should be explicit, clearly outlining that it is within the Councils legal powers, the level of risk to both capital and returns, the requirement to seek specialist advice if sought and the potential impact on future sustainability if risks come to pass.

5.7.6 This would also include any external underwriting of those risks e.g. guarantees. Given the increase in Councils creating ALEO’s and increasing partnership working, the Council may be asked to provide a financial guarantee to enable other parties to access funds which may not otherwise be available due to their size/ lack of credit history. This may also result in external funds being accessed at more favourable terms than they are likely to receive which will accrue both an operational and financial benefit to the Council.

5.7.7 In general, a financial guarantee is a promise to take responsibility for another company's financial obligation if that company cannot meet its obligation. Prior to agreeing to the provision of a financial guarantee , due financial diligence of the terms of the financial guarantee must be carried out, including an assessment as to the likelihood of the guarantee being called and potential financial liability to the Council.

5.7.8 The responsibility for proper scrutiny and final approval is the Council's Head of Financial Solutions. Information in respect of non Treasury Management investments must be clearly laid out and available within the Council's statutory accounts.

6.0 Performance Measurement Indicators & Benchmarking

6.1 The Code of Practice on Treasury Management requires the Council to use performance indicators to assess the adequacy of the treasury management function over the year and incorporate benchmarking to assess performance which is reported within the Annual Treasury Management Activity report. These are distinct historic indicators, which are additional to the predominantly forward-looking prudential indicators outlined in later sections of this report.

6.2 In respect of liquidity which is defined as the Council "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice) the Council will seek to maintain:

- Liquid short term deposits of at least £3m available on an overnight basis.

6.3 This Council generally uses the following historic indicators to monitor its loan portfolio performance and benchmarking:

- Borrowing: Average rate of borrowing for the year compared to average in previous year.
- Investments: Local measures of yield benchmarks are the Council's average return on short term investment activity in comparison to:

  - the 7 day/1 Month London Interbank Bid Rate (LIBID);
  - the Council's own bank: Instant Access Account;
  - the Council's Advisors benchmarking club

6.4 In the context of benchmarking security, this is a much more subjective area to assess. The Council currently evidences this by the application of minimum quality criteria to investment counterparties, through the use of credit ratings, supplied by the three main credit rating agencies, together with additional market information available as described earlier within this report and outlined within Annex C.

7.0 Treasury Management Local and Mandatory Indicators 2019/2020 to 2021/2022

7.1 Treasury Management Local Indicator: Interest Rate Exposure

7.1. Per the revised CIPFA TM code, the Council is no longer required to set a mandatory indicator for limits with regard to fixed and variable interest rate exposure. The Council will monitor its interest rate exposure by the local indicator shown in Table 3 below. The proportion of fixed interest rate costs to variable interest costs will be monitored on a quarterly basis to identify if there are any potential risks if interest rates were to move significantly upwards. The Council will also monitor debt maturity profile, the spend profile of the capital programme and also continue to adopt a prudent approach to use of internal balances in lieu of future long term borrowing i.e. monitor under borrowing position. The economic outlook and interest rate forecast will supplement this on-going review of interest rate exposure.

Content of loan portfolio	**2019/20**		**2020/21**		**2021/22**	
	£m	**%**	**£m**	**%**	**£m**	**%**
External Interest Council is due to pay:						

Fixed rate loan debt	23.6	90.0%	26.5	93.2%	31.1	95.7%
Variable rate loan debt	2.6	10.0%	1.9	6.8%	1.4	4.3%
	26.2	**100.0%**	**28.4**	**100.0%**	**32.5**	**100.0%**
External Interest Council is due to receive:						
Investments – variable terms	0.3	100.0%	0.3	100.0%	0.3	100.0%
Net Loan Interest Payments	**25.9**		**28.1**		**32.2**	

Table 3 – Local Indicators Interest Rate Exposures 2019/20 to 2021/22

7.1.2 Table 3 above relates only to external interest payments, excluding interest on revenue balances and includes a number of assumptions regarding the timing and nature of the new borrowing anticipated. As mentioned previously the Council capital planning process and investment/borrowing analysis enables it to take advantage of opportunities that may arise to achieve beneficial borrowing rates over the same period.

7.1.3 Table 3 highlights that the Council anticipates net loan external interest payments of approximately £25.9 million for 2019/2020. Of this total, £23.6million relates to interest payable on fixed rate debt, and for which interest payments are guaranteed until the loans mature, £2.6million relates to interest payable on variable rate debt, and almost £0.3million relates to interest receivable on funds invested. Variable rate loans and funds deposited are subject to changes in interest rates, and will be monitored as part of the Council's Treasury Management Strategy on an ongoing basis.

7.1.4 The table below highlights the estimated impact of a one basis point increase or decrease (e.g. 4.0% variable rate rising to 5.0% or falling to 3.0%) in interest rates to treasury management costs/income for next year. Fixed interest rate debt will not be affected by interest rate changes.

Financial Year : 2019/20	**Estimate £m**	**+1% £m**	**-1% £m**
Net impact on Council	3.1	1	-0.6

Table 4 –Sensitivity to Interest Rate Movements 2019/20

7.2 Treasury Management Mandatory Indicator: Maturity Structure of Borrowing

7.2.1 The Treasury Management Code requires the Council to specify upper and lower limits regarding the maturity structure of its long term borrowing in order to minimise the risk associated with the Council having to replace large sums of long term debt at a time when there may be uncertainty over interest rate exposure.

7.2.2 Table 3 illustrated that the Council has high levels of fixed rate debt however the current maturity profile of this debt is unlikely to be a major risk factor for the Council. The limits of fixed and variable rate maturity are set out within Table 5 below

Maturity Structure of borrowing	**< 12m**	**12m to 2yrs**	**2 to 5yrs**	**5 to 10yrs**	**10 to 20yrs**	**20 to 40yrs**	**40yrs+**
Upper limit – long term debt	20.0%	15.0%	25.0%	30.0%	35.0%	45.0%	30.0%
Lower limit – long term debt	0.0%	0.0%	5.0%	5.0%	5.0%	10.0%	5.0%

Table 5– Maturity Structure of Fixed Rate Borrowing

7.2.3 The upper limit for long-term rate debt, maturing in less than 12 months, is set at 20.0% to accommodate the requirement within CIPFA TM Code to recognise the possibility of the Council loans classified as LOBO type loans having their option or call exercised within the next 12 months, under the terms of the loans as described within paragraph 4.14 above.

7.3 Treasury Management Indicator: Credit Risk

7.3.1 The Council will manage its credit risk by implementing the investment strategy per

Section 5 and remaining within the guidelines outlined within Annex C.

7.3.2 The Council has also adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average weighted by the size of each investment.

	Target
Portfolio Average Credit Rating	A-

Table 6 – Credit Risk Indicator 2019/20

8.0 Prudential Indicators 2019/2020 to 2021/2022

8.1 Prudential Indicator: The Capital Expenditure Plans

8.1.1 The Prudential Code requires the Council to outline its capital expenditure plans taking into account the sources of funding available and also the cost to the council in supporting any additional borrowing burden which will require to be paid for from the Council's own resources. The Government has power to control the level of prudential borrowing although no control has yet been implemented.

8.1.2. Some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

8.1.3 Table 7 sets out the revised Capital Expenditure plans for 2018/2019 (Revised) and forecast for the period 2019/2020 to 2021/2022.

Capital Expenditure	**2018/19 Revised £m**	**2019/20 Forecast £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**
Composite	53.8	56.7	47.9	42.8
Schools & Centres 21	29.7	12.0	30.1	56.0
Children & Young People	1.8	11.3	8.6	0.2
City Deal	3.2	6.0	10.0	25.0
Housing Revenue Account	81.3	122.5	150.7	165.9
Total Capital by Expenditure	**169.8**	**208.5**	**247.3**	**289.9**
Cumbernauld School/Theatre DBFM	-	37.0	-	-
Clyde Valley Waste Facility	-	23.0	-	-
IFRS16: Vehicles & Buildings	-	-	14.5	-
Total Capital by Credit Arrangement	**-**	**60.0**	**14.5**	**-**
Total Capital Investment	**169.8**	**268.5**	**261.8**	**289.9**
Financed by:				
Capital Receipts	1.6	4.5	4.1	3.4
Capital Grants	40.7	75.4	64.2	66.6
Capital from Current Revenue	29.9	27.1	25.3	24.6
CFR : Borrowing : General Services	47.5	23.5	45.9	68.6
CFR : Borrowing : HRA	50.1	78.0	107.8	126.7
Credit Arrangement	-	60.0	14.5	-
Total Capital Funding Resources	**169.8**	**268.5**	**261.8**	**289.9**

Table 7 – Capital Expenditure Plans 2018/19 to 2021/22

8.1.4 General Services within Table 7 above encompasses the CFR, reflecting the borrowing needs, for Composite Services, Schools & Centres 21, Children & Young People and the

City Deal whilst HRA includes the New Build, Buy Back Scheme and the Ambition programme.

8.1.5 For 2020/2021, an estimate has been included to reflect the potential implications of IFRS16 Accounting for Leases in respect of the reclassification for buildings, vehicle and plant, currently accounted for as operational leases within revenue currently managed outwith the prudential framework until changes come into force on 1 April 2020.

8.2 Prudential Indicator: Capital Financing Requirement (CFR)

8.2.1 The CFR is essentially a measure of Council's underlying borrowing need i.e. capital expenditure which is not resourced by capital grants, receipts or CFCR and any new borrowing will increase the CFR. The CFR includes long term liabilities representing outstanding obligations under the education PPP, finance leasing arrangements and the latest aforementioned projects in relation to Cumbernauld Academy/Theatre, the Clyde Valley Waste Facility plus IFRS16 implications from 2020/2021.

8.2.2 However the Council pays off an element of the accumulated capital spend each year through a revenue charge, comprising scheduled debt repayments from service departments (annuity based) which reduces the CFR. Committee is asked to approve the CFR projections at the 31 March for each financial year set out below.

	2018/19 Revised £m	**2019/20 Forecast £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**
Capital Financing Requirement				
General Services	669.3	723.2	749.7	782.9
HRA	291.3	361.3	459.6	574.9
Total CFR	**960.6**	**1,084.5**	**1,209.3**	**1,357.8**
Movement in CFR		**123.9**	**124.8**	**148.5**

Table 8 – CFR Projections 2018/19 to 2021/22

8.2.3 General Services within Table 8 and Table 9 incorporate the capital finance requirements for Composite Services, Schools & Centres 21, Children & Young People and the City Deal whilst the HRA includes the New Build, Buy Back Scheme and the Ambition programme.

8.2.4 The year on year movement in CFR is shown in Table 9 below.

	2018/19 Revised £m	**2019/20 Forecast £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**
CFR : Borrowing : General Services	47.5	23.5	45.9	68.6
CFR : Borrowing : HRA	50.1	78.0	107.8	126.7
Credit Arrangements	-	60.0	14.5	-
Scheduled Debt Amortisation	-29.5	-31.2	-34.5	-37.7
Leasing Amortisation	-0.2	-0.4	-2.3	-2.3
Education PPP Amortisation	-5.1	-6.0	-6.6	-6.8
Movement in CFR	**62.8**	**123.9**	**124.8**	**148.5**

Table 9 – Movements in CFR 2018/19 to 2021/22

8.3 Prudential Indicator: Limits to Borrowing Activity:

Treasury Management Strategy 2019/2020, Treasury Management Indicators and Prudential Indicators 2019/2020 to 2021/2022

8.3.1 Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits. For the first of these the Council needs to ensure that its total borrowing , does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/2020 and the next two financial years.

	2018/19 Revised £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
Gross Borrowing : Loan Debt	708.9	789.8	918.2	1079.3
Long term Liabilities	146.7	200.3	206.0	196.7
External Debt	**855.6**	**990.1**	**1,124.2**	**1,276.0**
Capital Financing Requirement	**960.6**	**1,084.5**	**1,209.3**	**1,357.8**
Prudential Margin	**105.0**	**94.4**	**85.1**	**81.8**
Gross Borrowing =< year 3 CFR	**Yes**	**Yes**	**Yes**	**Yes**

Table 10 – Prudential Margins 2018/19 to 2021/22

8.3.2 The above table demonstrates that healthy prudential margins will continue to exist from 2019/2020 onwards and that the Council complies with this prudential indicator in the current year and does not envisage difficulties in the future. This view takes into account current commitments, existing plans and the proposals in respect of the capital investment levels proposed.

8.4 Prudential Indicator: The Authorised Limit for External Debt.

8.4.1 This represents the maximum limit beyond which borrowing is prohibited. Although this limit is deemed to be affordable in the short-term, it is not desirable or a sustainable level of borrowing for the council and is therefore being set at a level as the maximum allowable in each of the years 2019/2020 through to 2021/2022. The initial level set for 2018/2019 is shown for comparison. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 provide a statutory backing to the Prudential Code requirement for an authority to set an authorised limit for external debt.

Authorised Limit	2018/19 Initial Limit £m	2019/20 Estimated £m	2020/21 Estimated £m	2021/22 Estimated £m
Gross Borrowing :Loan Debt	850	950	1,070	1,180
Other Long-Term Liabilities	160	210	210	210
Total External Debt	**1,010**	**1,160**	**1,280**	**1,390**

Table 11 – Authorised Limit 2018/19 to 2021/22

8.5 Prudential Indicator: The Operational Boundary for External Debt.

8.5.1 This indicator is based on the expected maximum external debt during the course of the year; it is not a limit. This operational boundary allows flexibility to borrow, re-invest and undertake debt restructuring during the course of the year. It is therefore possible and acceptable, for actual borrowing to vary around this boundary for short periods during the year.

Operational Boundary	2018/19 Initial Limit £m	2019/20 Estimated £m	2020/21 Estimated £m	2021/22 Estimated £m
Gross Borrowing :Loan Debt	840	940	1,060	1,180
Other Long-Term Liabilities	160	205	205	200
Total External Debt	**1,000**	**1,145**	**1,265**	**1,380**

Table 12 – Operational Boundary 2018/19 to 2021/22

8.6 Prudential Indicators: Affordability

8.6.1 The previous sections cover the treasury management and overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council finances. The Council is asked to approve the following affordability indicator.

8.7 Prudential Indicator: The Proportion of Financing Costs to Net Revenue Stream.

8.7.1 Since capital expenditure impacts on the revenue budget through financing charges, the Council needs to ensure that financing costs not only remain affordable, but also do not constitute an excessive proportion of the revenue resources available. The proportion of borrowing costs to revenue forecasts for the next 3 years are illustrated in Table 13 below showing that the General Services loan charges represent up to 8.84% of the total revenue budget available. The increase in the proportion still remains within prudent levels demonstrating that the capital programme investment appears to be affordable and sustainable.

8.7.2 In noting the percentage on loan charges within the HRA budget, a major element of revenue costs in the Housing Account is the funding support to sustain the substantial investment programme; the other main elements of expenditure being repair costs and management costs. The level of loan charges is acceptable and deemed prudent and affordable within the framework of the Council's 30-year Housing investment plan.

Proportion of Financing Costs to Net Revenue Stream	**Estimated 2019/20**	**Estimated 2020/21**	**Estimated 2021/22**
	£	£	£
Total General Fund (GF) Loan Charges	42,112,627	43,725,809	45,638,380
Total General Fund Finance Lease/PPP Costs	18,444,944	22,095,418	22,555,418
Total General Fund : Capital Financing Costs	**60,557,571**	**65,821,227**	**68,193,798**
General Fund : Net Revenue Stream	**778,945,000**	**766,345,000**	**771,779,000**
GF- Proportion of Financing Costs to Net Revenue Stream	**7.77%**	**8.59%**	**8.84%**
Total Housing Revenue Account (HRA) Loan Charges	18,084,626	22,019,643	27,375,830
Total Housing Revenue Account Finance Lease Costs	324,862	324.862	324,862
Total HRA : Capital Financing Costs	**18,409,488**	**22,344,505**	**27,700,692**
HRA : Net Revenue Stream	**126,520,000**	**133,440,000**	**141,380,000**
HRA- Proportion of Financing Costs to Net Revenue Stream	**14.55%**	**16.74%**	**19.59%**

Table 13 – Proportion of Financing Costs to Net Revenue Streams 2019/20 to 2021/22

8.8 Prudential Indicator: Affordability – Sensitivity Analysis

8.8.1 For the Prudential Indicators relating to affordability, the table within Annex E provides a summary of the sensitivity of the most likely outcomes outlined within the preceding paragraphs provided above to the following movements, all assessed independently of each other:

(i) a plus or minus 10% change in the capital financing requirement i.e. the level of borrowing undertaken to retain average investment balances and under borrowing position at prudent levels.

(ii) a plus or minus 50 bps change in the interest rates achievable for new long term borrowing i.e. ½ percent movement

(iii) a plus or minus 10% change in the net revenue stream used to calculate the proportion of financing costs to net revenue stream.

9.0 Policy on Repayment of Loans Fund Advances 2019/2020

9.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 within Regulation 13 require the Council to make a loans fund advance equal to the amount of capital expenditure that the Council has determined will be financed by borrowing. The timing of the borrowing being in accordance with treasury management principles with the timing not informing when a loans funds advance has been made. The Capital Expenditure definition being that adopted by proper accounting practice, the statutory control framework and the Prudential Code

9.2 Loans fund advances also incorporate grants to third parties on third party assets and loans to third parties where the other party meets the criteria laid out within Part 3 of the Regulations e.g. other local authorities or joint boards.

9.3 Accounting for loans fund advances also changed from 1st April 2016. Prudent repayment of loans fund advances are required to be made in line with Scottish Government Statutory Guidance on Loans Fund Accounting (Circular 7/16).

9.4 The broad aim of prudent repayment is to ensure that the Authority's capital expenditure is financed over a period of years which that expenditure is expected to provide a benefit and that each year's repayment amount is reasonably commensurate with the period and pattern of the benefits.

9.5 The statutory guidance requires the Council to approve a policy on loans fund repayments each year and it is proposed the Council adopts the following options for calculating prudent repayments in 2019/20.

9.6 For pre-existing Loans Fund advances made up to 31st March 2016 and for the most part capital expenditure plans for the period up to and including the 31 March 2021, the Council will continue to use Option 1 the Statutory Method. This approach taking into account the 5-year transitional period from 31/3/2016 to 31/3/2021 available within the new guidance, during which the current methodology may continue to be selected. The repayment of Loans Fund advances will therefore be equal to the annual amount determined in accordance with Schedule 3 of the Local Government (Scotland) Act 1975.

9.7 However, where circumstances determine that it may be prudent to recognise grant funding or other income streams when determining both the period of the repayment and/or the annual repayment of any loans fund advance Option 4 Funding/Income profile method will be selected. Some examples of where this income approach may be considered prudent would include the City Deal and Tax Increment Financing projects. Therefore for capital expenditure incurred after 31st March 2016 for specified projects where it is reasonable to link an income /funding stream, the annual repayment of Loans Fund advances will be profiled to reflect the income/funding stream. The Council will keep the income streams under review to ensure the provision for repayment remains prudent and, if required, address any shortfall.

9.8 After due consideration of the other options available within the Statutory Guidance the Council does not anticipate adopting Option 2: the Depreciation method or Option 3: Asset Life Method for loans fund repayments in 2018/2019. This will be reviewed on annual basis but in the event that due to unforeseen events, this approach changes during the reporting period the Council will seek approval from members to approve a change as part of the normal quarterly reporting arrangements.

9.9 In accordance with the Statutory Guidance, the Council has outlined within Annex F its commitments in respect of loans fund advance repayments. This reflects the estimated loans fund advances in 2019/20, 2020/21 and 2021/22 and the repayments policy outlined above.

9.10 In accordance with the statutory guidance the HRA Loans Fund advances and associated annual repayments have been identified separately from that of the General Fund.

Annex A

Treasury Management Policy Statement & Clauses adopted

The Treasury Management Policy Statement adopted by North Lanarkshire Council:

1. The Council defines its Treasury Management activities as:

   "The management of the organisation's borrowing 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 Council and any financial instruments entered into to manage these risks.
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
4. The Council adopts a high level approach to setting policies for borrowing and investment activity having in place an appropriate scheme of delegation and ensuring all staff employed in Treasury Management have the suitable skills and resources to carry out delegated treasury management activities effectively, efficiently and achieving value for money.

CIPFA TM code clauses formally adopted by North Lanarkshire Council:

1. This Council will create and maintain, as the cornerstones for effective treasury management:
   - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
   - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
2. The Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.
3. The Council delegates responsibility for the development of the Treasury Management Strategy and implementation and monitoring of its treasury management policies and practices to the Finance and Resources Committee and for the execution and administration of treasury management decisions to the Head of Financial Solutions, who will act in accordance with the Council's Treasury Policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
4. The Audit and Governance Panel will be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies as part of its work on reviewing the internal financial controls of the Council.
5. In accordance with The Local Government Investments (Scotland) Regulations 2010, the Council is responsible for the approval of the Annual Investment Strategy and Annual Investment Report.

Annex B

Explanation of Long-Term Rating Definitions

Type of Rating	Rating	Explanation
Fitch – long-term	AAA	Indicates exceptionally *strong* capacity for timely payment of financial commitments and this capacity is highly unlikely to be adversely affected by foreseeable events.
	AA-	Indicates very *strong* capacity for timely payment of financial commitments and this capacity is not significantly vulnerable to foreseeable events.
	A-	Indicates *strong* capacity for timely payment of financial commitments. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
	BBB	Indicates an *adequat*e capacity for timely payment of financial commitments but adverse business or economic conditions more likely to impair this capacity.
Moody's – long-term	Aaa	Offer *excellent* credit quality, with susceptibility to long-term risks that are mostly unlikely to materially impair the banks strong position.
	Aa	Offer *excellent* credit quality, with susceptibility to long-term risks with a vulnerability to greater fluctuations within protective elements.
	A	Offer *excellent* credit quality, but elements suggest a susceptibility to impairment over the long-term.
	Baa	Rated as *medium* grade, with some speculative elements and moderate credit risk.
Standard & Poor's - long-term	AAA	Indicates extremely *strong* capacity for timely payment of financial commitments
	AA-	Indicates *strong* capacity for timely payment of financial commitments
	A-	Indicates *strong* capacity for timely payment of financial commitments This capacity may, nevertheless, be more susceptible to the adverse effects of changes in circumstances or in economic conditions than is the case for higher rated category.
	BBB	Indicates an *adequat*e capacity for timely payment of financial commitments but adverse business or economic conditions more likely to impair this capacity.

Annex C

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

Type of Investment	Treasury Management Risks	Mitigating Controls	Credit Rating		Money Limits	Time Limits
a. Deposits with the Debt Management Account Facility (UK Government).	Deposit with the UK Government and as such credit/counterparty and liquidity risk is very low, and there is no market risk to the principal sum.	Little mitigating controls required as this is a UK Government investment. The monetary limit is unlimited to allow for a safe haven for investments. The sovereign rating is monitored with the impact of any changes to this sovereign rating evaluated and removal of the investment from the permitted list if necessary.	Long-term rating	n/a	No limit	O/night
b. Deposits with other local authorities or public bodies	Quasi UK Government debt and as such credit/counterparty risk is very low, and there is no market risk to principal sum. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. The sovereign rating is monitored with the impact of any changes to this sovereign rating evaluated and removal of the investment from the permitted list if necessary.	Long-term rating	n/a	£20m	Up to a max period of 3 years
c. Instant Access Accounts	These tend to be low risk investments, but will exhibit higher risks than categories (a) and (b) above. These investments are subject to risk of loss via bail-in should the regulator determine that the bank is failing or likely to fail.	Lending will be restricted to those counterparties meeting the credit rating criteria with the selection defaulting to the lowest available credit rating to provide additional risk control measures. Assessment of credit worthiness will be further strengthened by the use of additional market intelligence including credit default swaps, sovereign support and share price data.	Long-term rating	Above or equal to A- or equivalent	£20m	Daily access if required
				BBB or equivalent	£10m	
Type of Investment	**Treasury Management Risks**	**Mitigating Controls**	**Credit Rating**		**Money Limits**	**Time Limits**

Annex C

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

d. Call Accounts	These tend to be low risk investments, but will exhibit higher risks than categories (a) to (c) above. With this type of investment liquidity can be low or high, determined by the call account facility adopted e.g. 35 days. Call deposits can only be broken with the agreement of the counterparty, and penalties may apply. These investments are subject to risk of loss via bail-in should the regulator determine that the bank is failing or likely to fail.	Lending will be restricted to those counterparties meeting the credit rating criteria with the selection defaulting to the lowest available credit rating to provide additional risk control measures. Assessment of credit worthiness will be further strengthened by the use of additional market intelligence including credit default swaps, sovereign support and share price data.	Long-term rating	Above or equal to A- or equivalent	£20m	up to a max of 364 days
				BBB or equivalent	£10m	up to a max of 30 days.
e. Term Deposits	These tend to be low risk investments, but will exhibit higher risks than categories (a) to (d) above. With this type of investment, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply. These investments are subject to risk of loss via bail-in should the regulator determine that the bank is failing or likely to fail.	Lending will be restricted to those counterparties meeting the credit rating criteria with the selection defaulting to the lowest available credit rating to provide additional risk control measures. Assessment of credit worthiness will be further strengthened by the use of additional market intelligence including credit default swaps, sovereign support and share price data.	Long-term rating	Above or equal to A- or equivalent	£20m	up to a max of 364 days.
				BBB or equivalent	£10m	up to a max of 30 days.
Type of Investment	**Treasury Management Risks**	**Mitigating Controls**	**Credit Rating**		**Money Limits**	**Time Limits**

Annex C

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

f. Money Market Funds (MMFs)	The Council is no longer guaranteed preservation of capital i.e. for every £1 of principal invested the fund will no longer guarantee a return £1 of principal on withdrawal. However the day to day operation of LVNAV funds is very similar and has many of the attractive features of the former Constant Net Asset Value (CNAV) fund and the probability of the price changing and loss of capital, within the boundaries set for price changes i.e. "the collar", is widely regarded as de minimis.	Two types of funds are available to the Council - a Public Debt CNAV (assets invested in government debt); and - a 'Low Volatility NAV' (LVNAV) The Council will not use Variable NAV Funds. Assessment of credit worthiness will be underpinned by additional market intelligence including credit default swaps, sovereign support and share price data and information regularly received from the Council's Treasury Advisors Arlingclose Ltd.	Long-term rating	n/a	£10m per MMF fund up to a max of £40m in total or 0.5% of fund size.	Daily access if required
g. Instant Access Funds held with Council's own bankers	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. These investments are subject to risk of loss via bail-in should the regulator determine that the bank is failing or likely to fail.	If the council's own bankers fail to meet the credit rating criteria per c) above , for operational purposes limited funds may be held within this account but the Council will ensure funds kept at the lowest levels manageable	Long-term rating	n/a	n/a	Overnight basis only
Type of Investment	**Treasury Management Risks**	**Mitigating Controls**	**Credit Rating**		**Money Limits**	**Time Limits**

Annex C

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

h. Government Gilts and Treasury Bills	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to the market value arising from an adverse movement in interest rates (no loss if these are held to maturity).	Little mitigating controls required as this is a UK Government investment. The monetary limit is unlimited to allow for a safe haven for investments. Any changes to the sovereign rating is evaluated and the removal of this type of investment from the permitted list if necessary. Assessment of credit worthiness will be further strengthened by additional market intelligence including credit default swaps, sovereign support and share price data. Cashflow management tools will endeavour to ensure that this type of investment is held until maturity to limit market risk.	Long-term rating	n/a	No limit	Up to a max period of 5 years
i. Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank (EIB) and the World Bank as such counterparty and liquidity risk is very low, although there is potential market risk to principal amount arising from an adverse movement in interest rates (no loss if these are held to maturity).	Lending restricted to those meeting credit rating criteria. Assessment of credit worthiness will be further strengthened by the use of additional market intelligence including credit default swaps, sovereign support and share price data. Cashflow management tools will endeavour to ensure that this type of investment is held until maturity to limit market risk	Long-term rating	A- or equivalent	£20m	max period of 5 years.
Type of Investment	**Treasury Management Risks**	**Mitigating Controls**	**Credit Rating**		**Money Limits**	**Time Limits**

Annex C

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

j. Certificates of deposits with financial institutions	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a) to (h) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	Lending will be restricted to those counterparties meeting the credit rating criteria with the selection defaulting to the lowest available credit rating to provide additional risk control measures. Assessment of credit worthiness will be further strengthened by the use of additional market intelligence including credit default swaps, sovereign support and share price data.	Long-term rating	A- or equivalent	£20m	Up to a max period of 364 days.
k. Covered Bonds	These are bonds issued by financial institutions and guaranteed by a group company that holds mortgage assets. There is risk of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low as highly liquid market. These investments are exempt from the bail-in provisions should the regulator determine that the bank is failing or likely to fail.	These investments are secured on the borrower's assets up to a value of 125% of the principal amount which limits the potential losses in the event of default. Process in place to monitor the value of the cover arrangements throughout the bond term. i.e. value of assets providing security Bonds will be restricted to those meeting credit rating criteria. Assessment of credit worthiness will be further strengthened by the use of additional market intelligence including credit default swaps, sovereign support and share price data. Cashflow management tools will endeavour to ensure that this type of investment is held until maturity to limit market risk.	Long-term rating	A- or equivalent (Criteria required for the covered bond.)	£20m	Up to 5 years.
				BBB or equivalent (Criteria required for the covered bond.)	£10m	Up to 6 months.
Type of Investment	**Treasury Management Risks**	**Mitigating Controls**	**Credit Rating**		**Money Limits**	**Time Limits**

Annex C

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

Type of Investment	Treasury Management Risks	Mitigating Controls	Credit Rating		Money Limits	Time Limits
I. Reverse repurchase agreements and other collateralised arrangements	These are bonds issued by financial institutions with collateral provided by the lender to the Council by transferring the custody and title to bonds or other investment securities valued at a price above par e.g. 105% of the principal amount. There is risk of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low as highly liquid market. These investments are exempt from the bail-in provisions should the regulator determine that the bank is failing or likely to fail.	These investments are secured by the borrower giving the Council custody and title to marketable securities valued above par that will be retained in the event of default Process in place to monitor the value of the collateral in place throughout the bond term to ensure adequate cover. Collateral arrangements will be restricted to those meeting credit rating criteria. Assessment of credit worthiness will be further strengthened by the use of additional market intelligence including credit default swaps, sovereign support and share price data. Cashflow management tools will endeavour to ensure that this type of investment is held until maturity to limit market risk	Long-term rating	A- or equivalent (Criteria required for collateral arrangement)	£20m	Up to 5 years.
				BBB or equivalent (Criteria required for the collateral)	£10m	Up to 6 months.

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

m. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance or compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams. Strategy/Policy driven subject to scrutiny by Head of Financial Solutions.	n/a	Policy Driven	Policy Driven,
n. Loans to third parties including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Prior to awarding loans to a third party the Service Strategy/Policy decision to award this type of loan/loans must be subject to scrutiny and approval by the Head of Financial Solutions. Full detail of the service rationale behind awarding the loan and the likelihood of partial or full default must be assessed.	n/a	Policy Driven	Policy Driven,
o. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Prior to awarding loans to a local authority company the Service Strategy/Policy decision to award this type of loan/loans must be subject to scrutiny and approval by the Head of Financial Solutions. Full detail of the service rationale behind awarding the loan and the likelihood of partial or full default must be assessed.	n/a	Policy Driven	Policy Driven,
Type of Investment	**Treasury Management Risks**	**Mitigating Controls**	**Credit Rating**	**Money Limits**	**Time Limits**

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

Type of Investment	Treasury Management Risks	Mitigating Controls	Credit Rating	Money Limits	Time Limits
p. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss. Service Strategy/Policy driven subject to scrutiny by Head of Financial Solutions.	n/a	Policy Driven	Policy Driven
q. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss. Service Strategy/Policy driven subject to scrutiny by Head of Financial Solutions	n/a	Policy Driven	Policy Driven

Permitted Investments, Associated Controls, Credit Rating, Money and Time Limits

r. Subordinated debt in projects delivered via 'Hubco/DBFM' model	The 'Hubco/DBFM' delivery model fails to meet its' contractual obligations resulting in failure to repay the principal sum invested. The cash forming part of the Council's reserves and balances is required during the term of the investment as the type of investment is highly illiquid. Fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.	The Council must assess the merits of each individual subordinated debt investment opportunity via the 'Hubco/DBFM' model prior to investing, carrying out a full risk/benefit analysis. Employ efficient cashflow management and forecasting tools including annual balance sheet analysis. Set a cap on the level of long term investments of this nature i.e. to avoid cash reserves being fully extinguished resulting in future non compliance with 'borrowing to on lend' restrictions. Implement Long term Financial Plans which are robust including the setting of contingencies and cash backed reserves at levels to leave prudent headroom to cater for long term cash commitments. Where possible consider selling subordinated debt to a secondary market provider. For investments in subordinated debt for projects delivered via the 'Hubco' model the rate of return is fixed over the term of the investment and in normal circumstances will not vary.	n/a	£1.5m per project	Up to 30 years

Annex D

Interest Rate Forecast March 2019 until December 2021 (Source: Arlingclose January 2019)

	2019				2020				2021			
Central Forecast	**March (%)**	**June (%)**	**Sept (%)**	**Dec (%)**	**Mar (%)**	**June (%)**	**Sept (%)**	**Dec (%)**	**March (%)**	**June (%)**	**Sept (%)**	**Dec (%)**
Official Bank Rate*	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 Month MM* Rate**	0.90	0.90	0.95	1.20	1.25	1.35	1.40	1.40	1.40	1.40	1.40	1.40
1-yr LIBID***	1.20	1.20	1.25	1.50	1.60	1.75	1.75	1.70	1.70	1.70	1.70	1.70
5-yr PWLB****	1.75	1.75	1.80	2.05	2.10	2.25	2.25	2.20	2.20	2.20	2.20	2.20
10-yr PWLB	2.10	2.15	2.20	2.45	2.55	2.70	2.65	2.65	2.65	2.65	2.65	2.65
20-yr PWLB	2.50	2.55	2.60	2.80	2.85	3.00	3.00	3.00	3.00	3.00	3.00	3.00
50-yr PWLB	2.45	2.50	2.55	2.75	2.80	2.95	2.95	2.95	2.95	2.95	2.95	2.95

*Official Bank rate: (also called the Bank of England base rate or BOEBR) is the interest rate that the Bank of England charges Banks for secured overnight lending.

**MM: the short term readily available from banks and building societies and similar financial organisations

***LIBID: The London Interbank Bid Rate (LIBID) is a bid rate; the rate bid by banks on Eurocurrency deposits (i.e., the rate at which a bank is willing to borrow from other banks). It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

****PWLB: Public Works Loan Board

SENSITIVITY ANALYSIS OF PRUDENTIAL INDICATORS: AFFORDABILITY 2019/20, 2020/21 & 2021/22

The Tables below highlights the impact of

(i) a plus or minus 10% change in the capital financing requirement i.e. the level of borrowing undertaken to retain average investment balances and under borrowing position at prudent levels

Prudential Indicators : Affordability	**CFR Movement**	**19/20**	**20/21**	**21/22**
		£m	£m	£m
Total Composite Capital Financing Costs	+10%	61.45	67.66	70.97
	No Change	60.56	65.82	68.19
	-10%	59.67	63.98	65.43
		£m	£m	£m
Total HRA Capital Financing Costs	+10%	18.54	23.23	28.80
	No Change	18.41	22.34	27.71
	-10%	18.28	22.06	27.20
General Fund : Proportion of financing costs to net revenue stream	+10%	7.89%	8.83%	9.20%
	No Change	7.77%	8.59%	8.84%
	-10%	7.66%	8.35%	8.48%
HRA : Proportion of financing costs to net revenue stream	+10%	14.65%	16.95%	19.94%
	No Change	14.55%	16.74%	19.60%
	-10%	14.45%	16.53%	19.24%

SENSITIVITY ANALYSIS OF PRUDENTIAL INDICATORS: AFFORDABILITY 2019/20, 2020/21 & 2021/22

(ii) a plus or minus 50bps change in the interest rates achievable for new long term borrowing i.e. ½ per cent movement.

Prudential Indicators : Affordability	Interest Rate Movement	19/20	20/21	21/22
		£m	£m	£m
Total Composite Capital Financing Costs	+50bps	60.72	66.39	69.19
	No Change	60.56	65.82	68.19
	-50bps	60.40	65.26	67.20
		£m	£m	£m
Total HRA Capital Financing Costs	+50bps	18.50	22.71	28.49
	No Change	18.41	22.34	27.71
	-50bps	18.32	21.98	26.94
General Fund : Proportion of financing costs to net revenue stream	+50bps	7.79%	8.66%	8.96%
	No Change	7.77%	8.59%	8.84%
	-50bps	7.75%	8.52%	8.71%
HRA : Proportion of financing costs to net revenue stream	+50bps	14.62%	17.02%	20.15%
	No Change	14.55%	16.74%	19.60%
	-50bps	14.48%	16.47%	19.05%

Annex E

SENSITIVITY ANALYSIS OF PRUDENTIAL INDICATORS: AFFORDABILITY 2019/20, 2020/21 & 2021/22

(iii) A plus or minus 10% change in the net revenue stream used to calculate the proportion of financing costs to net revenue stream.

Prudential Indicators : Affordability	**Movement in Net Revenue Steam**	**19/20**	**20/21**	**21/22**
General Fund : Proportion of financing costs to net revenue stream	+10%	7.07%	7.81%	8.03%
	No Change	7.77%	8.59%	8.84%
	-10%	8.64%	9.54%	9.82%
HRA : Proportion of financing costs to net revenue stream	+10%	13.23%	15.22%	17.82%
	No Change	14.55%	16.74%	19.60%
	-10%	16.17%	18.61%	21.78%

Annex F

LOANS FUND REPAYMENT SCHEDULE

Loans Fund Repayments Schedules	**GF Estimated Loans Fund Pool Open Balance £m**	**HRA Estimated Loans Fund Pool Open Balance £m**	**Total £m**
Estimated Loans Fund Pool Open Balance	**524.88**	**289.01**	**813.89**
Estimated New Advances 19/20	23.49	77.93	101.42
Estimated New Advances 20/21	45.89	107.79	153.68
Estimated New Advances 21/22	68.58	126.69	195.27
3 Year Total Estimated New Advances	**137.96**	**312.41**	**450.37**
Total Debt Repayments Due	**662.84**	**601.42**	**1,264.26**

Scheduled Debt Amortisation	**General Fund £m**	**HRA £m**	**Total £m**
Within 1 year	-23.36	-7.76	-31.12
Within 2 to 5 years	-110.38	-47.65	-158.03
within 5 to 10 years	-109.55	-74.39	-183.94
within 10 to 15 years	-97.92	-85.99	-183.91
within 15 to 20 years	-93.79	-102.12	-195.91
within 20 to 25 years	-70.82	-91.99	-162.81
within 25 to 30 years	-58.71	-77.87	-136.58
within 30 to 35 years	-46.57	-51.78	-98.35
within 35 to 40 years	-26.32	-43.02	-69.34
within 40 to 45 years	-14.74	-18.85	-33.59
within 45 to 50 years	-6.12	-	-6.12
within 50 to 55 years	-3.69	-	-3.69
within 55 to 60 years	-0.87	-	-0.87
Total Scheduled Debt Amortisation	**-662.84**	**-601.42**	**-1,264.26**