TREASURY MANAGEMENT STRATEGY AND POLICY STATEMENT 2018/19

INDEX

1 EXECUTIVE SUMMARY

1.1 This document has been prepared in accordance with the requirements of the Local Government Act 2003, which stipulates that local authorities must 'have regard to' the following statutory codes:

- CIPFA Prudential Code (2017);
- CIPFA Treasury Management Code (2017);
- CLG Guidance on Minimum Revenue Provision (MRP)*, and
- CLG Guidance on Local Authority Investments*.

** Latest version out for consultation*

1.2 In broad terms it sets out the following:

- the Council's **Treasury Management Policy** (the key objectives for its treasury management activities) - *Appendix A refers*;
- the Council's **capital expenditure plans** and related indicators - *section 2 refers*;
- the Council's **MRP Policy** (how its debt repayments will be provided for over time) – *Appendix C refers*;
- the Council's **borrowing strategy** (how the Council's borrowings are to be organised) - *paragraph 1.3 refers*, and
- the Council's **Annual Investment Strategy** (the parameters on how investments are to be managed) - *paragraph 1.4 refers*

BORROWING STRATEGY

1.3 The proposed borrowing strategy in section 3 can be summarised as follows:

- **De-risk the Council's debt portfolio,** by actively reducing interest rate exposure throughout the reporting period (2018/19 – 2020/21);
- **Address any additional borrowing requirement** resulting from anticipated future capital investment, and
- Within this context, **maintain the Council's under-borrowed position as far as possible**, to keep financing costs to a minimum.

ANNUAL INVESTMENT STRATEGY

1.4 The proposed investment strategy in section 4 can be summarised as follows:

- **Keep investment balances to a minimum** and **invest only in secure counterparties**, to mitigate security risk;
- **Maintain a minimum balance of liquid funds** to address liquidity risk, and
- **Within this context, seeking optimum performance** in terms of yield.

2 STRATEGY FRAMEWORK

2.1 The statutory codes referred to in paragraph 1.1 provide a framework for the Council's treasury management activities. This section covers the **key indicators and limits** set out within these codes, maintaining separate disclosures for the General Fund (GF) and Housing Revenue Account (HRA) - the full suite of indicators can be found in Appendix F.

2.2 The Prudential Code provides a framework for local authority capital investment decisions. It sets out a number of indicators to assess the prudence and affordability of the Council's capital expenditure plans and external debt.

2.3 The Treasury Management Code provides a framework of best practice for local authority treasury management. It also recommends a range of treasury indicators which assess the Council's exposure to interest rate and refinancing risk.

2.4 The CLG guidance on MRP outlines the principles that local authoriities should consider when setting a prudent provision for the repayment of debt, including four recommended methodologies for calculation.

2.5 The CLG guidance on local authority investments covers the practices that local authorities should consider when making investment decisions, including the investment priorities of **Security**, **Liquidity** and **Yield**.

CAPITAL EXPENDITURE

Estimates of Capital Expenditure (General Fund and HRA)

2.6 This Prudential Indicator looks at the Council's capital expenditure plans, which are a key driver of its treasury management activity.

2.7 The table below shows the Council's approved capital expenditure plans (as at the 31st December 2017) and the extent to which these are financed from Council resources (e.g. Capital Receipts, Capital Grants and Reserves) - any shortfall of Council resources will result in a net financing (borrowing) need.

Capital Expenditure and Net Financing Need (£000)	**2016/17 Actual**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
General Fund (GF)	41,411	68,601	34,895	6,009	4,040
Housing Revenue Account (HRA)	27,218	24,564	24,580	10,802	6,650
Total Capital Expenditure	**68,629**	**93,165**	**59,475**	**16,811**	**10,690**
General Fund (GF)	(26,604)	(53,023)	(22,017)	(4,187)	(4,040)
Housing Revenue Account (HRA)	(27,218)	(24,564)	(24,580)	(10,802)	(6,650)
Total Resources Utilised	**(53,822)**	**(77,587)**	**(46,597)**	**(14,989)**	**(10,690)**
Approved Net Financing Need	**14,807**	**15,578**	**12,878**	**1,822**	**-**

2.8 The table above indicates an increasing net financing need between 2017/18 and 2020/21, which is one of the driving factors behind this year's borrowing strategy (as discussed in section 3).

2.9 In addition to the approved capital programme, the borrowing strategy considers any capital expenditure plans which have yet to be formally approved, but could impact on the Council's future financing need. This has been summarised in the table below:

Capital Expenditure and Net Financing Need (£000)	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**Total**
Approved Net Financing Need	**15,578**	**12,878**	**1,822**	**-**	**30,278**
Anticipated Future Financing Need	593	19,314	45,572	35,563	**101,042**
Total Estimated Net Financing Need	**16,171**	**32,192**	**47,394**	**35,563**	**131,320**

Estimates of Capital Financing Requirement (General Fund and HRA)

2.10 The second prudential indicator is the Capital Financing Requirement (CFR), which is essentially a measure of the Council's underlying borrowing need.

2.11 In accordance with best practice, the Council does not link borrowing to specific capital schemes and adopts an integrated treasury management strategy. In day to day cash management terms, no distinction can be made between revenue cash and capital cash and external borrowing may arise as a consequence of all the financial transactions of the Authority.

2.12 In contrast, the CFR is based on historic and future capital expenditure. Capital expenditure which has not been financed from the Council's own resourceswill produce an increase in the CFR.

2.13 The Council is asked to approve the CFR projections below:

Capital Financing Requirement (£000)	**2016/17 Actual**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
CFR Opening Balance*	937,290	940,585	945,549	967,276	1,003,812
Add Estimated Net Financing Need	14,807	16,171	32,192	47,394	35,563
Less Minimum Revenue Provision (MRP)	(11,512)	(11,207)	(10,465)	(10,858)	(12,264)
CFR Closing Balance*	**940,585**	**945,549**	**967,276**	**1,003,812**	**1,027,111**
General Fund (GF)	663,489	673,482	701,237	744,192	774,415
Housing Revenue Account (HRA)	277,096	272,067	266,039	259,620	252,696

**Includes long term liabilities such as PFI schemes and finance leases.*

MRP

2.14 The Minimum Revenue Provision (MRP) is a charge to the revenue account in relation to capital expenditure financed by borrowing, as required by the Local Authorities (Capital Finance and Accounting) Regulations 2003. The Council is required to determine an amount of MRP which it considers to be prudent - this amount reduces the CFR.

2.15 The amount set aside in the table above is based on draft CLG guidance which is currently out for consultation. Any variation to this guidance will be addressed through the mid-year update reports, in the form of a revised MRP Policy Statement. The proposed MRP Policy for 2018/19 is set out in Appendix C.

EXTERNAL DEBT

The Authorised Limit for External Debt (General Fund and HRA)

2.16 A further key prudential indicator represents a control on the maximum level of borrowing, including transferred debt. This reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term; and represents a limit beyond which external debt is prohibited. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control borrowing although this power has not yet been exercised.

2.17 This limit must separately identify borrowing from other long term liabilities such as leasing. Whilst these increase the Council's overall CFR, each arrangement contains its own borrowing facility; therefore the Council is not required to borrow separately.

2.18 Members are asked to approve the following Authorised Limit; and to delegate to the S151 Officer to affect movement within the total limit in accordance with option appraisal and best value for money for the Authority:

Authorised Limit (£000)	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	737,711	760,928	798,627	823,549
Other Long Term Liabilities	237,838	236,348	235,185	233,562
Total	**975,549**	**997,276**	**1,033,812**	**1,057,111**

HRA Debt Cap

2.19 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This is referred to in Appendix E and F.

Gross Debt and the Capital Financing Requirement (General Fund and HRA)

2.20 The table below measures the Council's overall external debt position (including leasing) against its underlying capital borrowing need (based on the information available as at the 31st December 2017), to highlight the extent to which the Council is under or over-borrowed. A more detailed forecast is provided in Appendix F.

2.21 This indicator is designed to ensure that total debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Gross Debt and CFR (£000)	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Gross External Debt	779,380	802,113	797,714	729,381	704,909
CFR	940,585	945,549	967,276	1,003,812	1,027,111
Under / (Over) Borrowing	**161,205**	**143,436**	**169,562**	**274,431**	**322,202**
% of CFR	**17%**	**15%**	**18%**	**27%**	**31%**

2.22 As shown in the table above, the Council was significantly under-borrowed at the end of 2016/17. This position is expectedto continue into 2020/21 (rising steeply in 2019/20 as the Council's variable rate PWLB loans mature). This is based on the assumption that any temporary loans will be fully refinanced as they mature, in line with the Council's overarching borrowing strategy.

2.23 The two tables below show the level of useable reserves available to support the Council's under-borrowed position (**also refered to as internal borrowing**), and the extent to which the Council will need to borrow externally. This informs the 2018/19strategy objective of addressing the anticipated future borrowing requirement:

GENERAL FUND

External Borrowing Need (£000)	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Under / (Over) Borrowing	155,861	130,069	160,581	222,269	275,281
Useable Reserves	146,297	79,562	39,774	16,140	15,000
External Borrowing Need	**9,564**	**50,507**	**120,807**	**206,129**	**260,281**
% of CFR	**1%**	**7%**	**17%**	**28%**	**34%**

2.24 The table above assumes that the Authority's current level of "banked" reserves will be utilised over the reporting period, except for reserves totalling £15M relating to a minimum working balance and other statutory functions . It also does not assume any replenishment of these reserves, on a prudent basis.

HRA

External Borrowing Need£000)	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Under / (Over) Borrowing	5,344	13,367	8,981	52,162	46,921
Useable Reserves	44,453	38,080	24,271	14,241	6,299
External Borrowing Need	**-**	**-**	**-**	**37,921**	**40,622**
% of CFR	**0%**	**0%**	**0%**	**15%**	**16%**

3 ANNUAL BORROWING STRATEGY

CONTEXT

3.1 The Council's general policy objective is to ensure it's level of debt is prudent and sustainable (i.e. **keeping financing costs to a minimum**) whilst **addressing the key associated risks**:

- Interest Rate Risk
- Refinancing Risk

3.2 Previous strategies have been to maintain the Council's under-borrowed position, **UNLESS** it was felt that there was a significant risk of a much sharper RISE in long and short term rates. As outlined below, interest rates are expected to rise in the near future, thus the 2018/19 strategy adopts a change of approach.

Prospects for Interest Rates

3.3 The table below outlines the latest base rate projections provided by the Council's treasury management advisors - these projections are important as the base rate influences what borrowing rates are available to the Authority.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Base Rate										
Link	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Eco.	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%

3.4 The projections from Link suggest that a further rate increase is unlikely to happen until Q3 of 2018/19 after the Brexit negotiations have been concluded (a more detailed economic and interest rate forecast provided by Link is attached at Appendix I).

3.5 Capital Economics, an independent advisory group, suggest that rate rises will be more accelerated, with the next rise being forecast in Q1 of 2018/19 and a series of further increases over the following financial year.

3.6 This difference in opinion demonstrates the uncertainty that exists in the financial markets, which again demonstrates the importance of maintaining a prudent stance towards interest rate and refinancing risk.

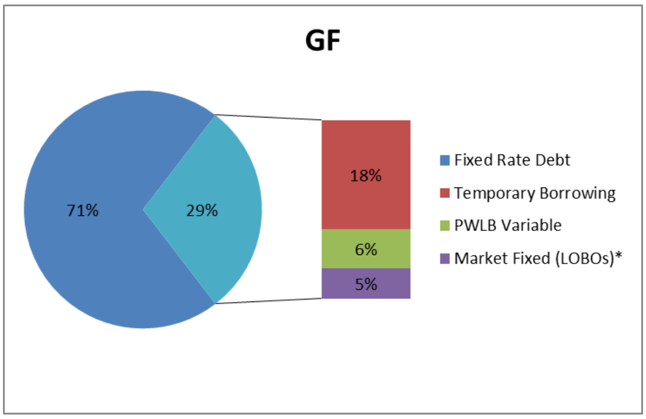
Interest Rate Risk

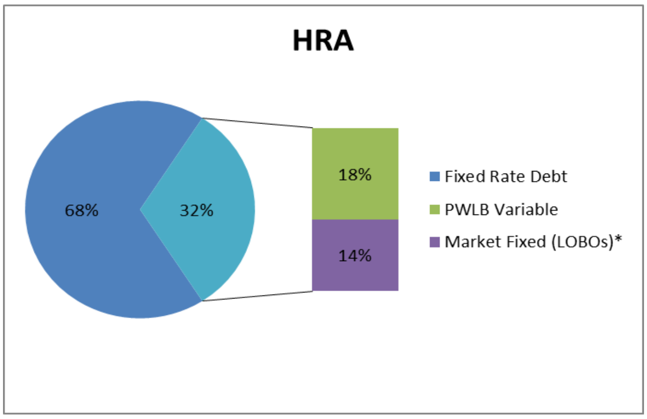
3.7 In the context of borrowing, this is the risk of an adverse movement in interest rates, leading to an increase in financing costs or lost opportunity costs. The two indicators relevant to interest rate risk are the upper limits on fixed and variable interest rate exposures.

3.8 As the table below illustrates, a significant proportion of the Council's debt portolio is subject to some degree of interest rate risk. This approach has worked for a number of years owing to the low interest rate environment, however recent events (such as the increase in base rate from November 2017) indicate a change of direction, therefore it is vital that the Council maintains a prudent stance towards interest rate risk in the foreseeable future:

External Debt Structure	Estimated Values at 31.03.18 (£000)			% of Portfolio		
	GF	HRA	TOTAL	GF	HRA	TOTAL
Market Fixed (LOBOs)*	27,003	35,997	63,000	5%	14%	8%
PWLB Variable	34,675	46,225	80,900	6%	18%	10%
Temporary Borrowing	96,703	-	96,703	18%	-	12%
Variable Rate Debt (Subject to Interest Rate Risk)	**158,381**	**82,222**	**240,603**	**29%**	**32%**	**30%**
Fixed Rate Debt	**385,032**	**176,478**	**561,510**	**71%**	**68%**	**70%**
Gross External Debt	**543,413**	**258,700**	**802,113**	**100%**	**100%**	**100%**

Note – although market loans are viewed as fixed rate borrowing, there is a potential interest rate risk attached to these instruments should the lender exercise the call option.





3.9 The recommended target is to reduce the proportion of actual debt subject to interest rate risk to 25% of the overall portfolio.

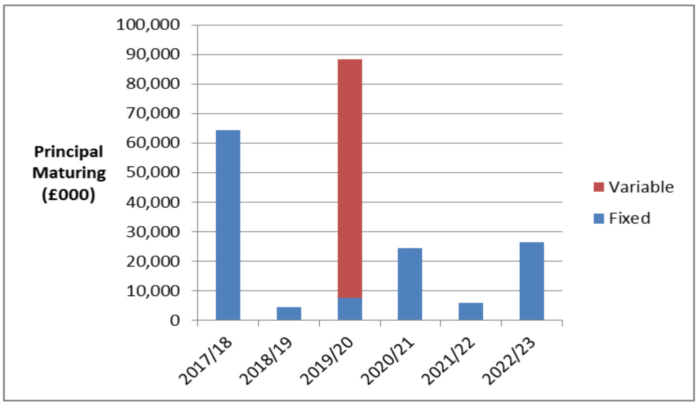
Interest Rate Risk Exposure	Estimated Values at 31.03.18 (£000)			% of CFR		
	GF	HRA	TOTAL	GF	HRA	TOTAL
Total Exposure to Interest Rate Risk (Inc. Internal Borrowing)	288,450	95,589	384,039	43%	35%	41%
Fixed Rate Debt	385,032	176,478	561,510	57%	65%	59%
Borrowing CFR	**673,482**	**272,067**	**945,549**	**100%**	**100%**	**100%**

3.10 The recommended target is to reduce overall interest rate risk exposure to 35% of the borrowing CFR.

Refinancing Risk

3.11 Refinancing risk is the risk of refinancing debt on unfavourable terms, due to either a lack of availability of replacement financing or an increase in interest rates. The key indicator relevant to refinancing risk is the maturity structure of borrowing. From 2018/19, this indicator will include variable rate debt.

3.12 As shown overleaf, a large sum of borrowing is due to mature within the next few years, that the Council will need to refinance. Given that interest rates are expected to increase in the near future, it may be prudent therefore to borrow in advance of their maturity dates whilst interest rates are still relatively low.



Financial Year	Fixed / Variable	GF (£000)	HRA (£000)	Total (£000)
2017/18	Fixed	27,551	36,711	64,262
2018/19	Fixed	2,757	1,642	4,399
2019/20	Fixed	4,058	3,376	7,434
	Variable	34,675	46,225	80,900
2020/21	Fixed	22,789	1,683	24,472
2021/22	Fixed	4,972	991	5,963
2022/23	Fixed	20,292	6,016	26,308

3.13 In theory the Council's market loans (also referred to as LOBOs) could be uplifted or recalled at the end of 2017/18 when they are next reviewed, which could mean borrowing up to £63M to replace these. However, considering interest rates are expected to stay relatively low (in comparison to the current LOBO rate of 4.75%), this is unlikely to be the case in the near future. There may be an opportunity to repay the LOBO loans in the future, which will depend on the penalties imposed by the current funders in order to break the loan conditions. Officers will continue to assess any opportunities as they arise.

3.14 A further issue to address is the variable rate debt maturing in 2019/20 (totalling £81M). These loans are currently running at less than 1%, therefore any replacement financing (except with further variable rate debt) is likely to attract additional costs. Options for replacing these loans, which aim to find a balance between certainty and cost, are set out from paragraph 3.19.

STRATEGY

3.15 The Council is currently maintaining an under-borrowed position (see table above at paragraph 2.22), which means that the Council's borrowing need (CFR), has not been fully funded with loan debt since cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure.

3.16 This strategy continues to pay dividends and support budget savings in the current economic environment - by postponing borrowing, the Council benefitted from an unexpected fall in fixed borrowing rates.)

3.17 However it exposes the Council to a high level of risk, particularly in relation to an uplift in interest rates. In addition, there are plans to utlise the Authority's useable reserves which currently support this under-borrowed position (paragraph 2.24 refers). These reserves will ultimately need replacing with external financing.

3.18 Whilst maintaining an under-borrowed position will remain a key aspect of the Council's borrowing strategy, it is increasingly important in the current economic climate to explore other borrowing options. As such, a debt options analysis has been carried out to assess the GF and HRA requirements over the next 5 years; the results of this anaylsis are set out below.

Borrowing Options

3.19 **Replace maturing loans with fixed, longer dated debt:**

- **GF** - Replacing maturing loans with fixed, longer dated debt would reduce interest rate risk exposure and therefore de-risk the Council's debt portfolio. It would however introduce additional financing costs (fixed-rate debt attracts a higher interest rate).
- **HRA** - The high proportion of fixed rate debt already maintained means that further fixed, longer dated debt is not ideal. The HRA could look to replace this with temporary borrowing instead, which would keep interest costs low in the short-term, whilst allowing some flexibility to borrow longer term should interest rates start to rise sharply.

3.20 **Restructure variable rate debt:**

- **GF** - Similarly, the Council could consider switching some of the variable rate debt to fixed, longer dated debt (the variable rate debt would not incur any penalties if repaid early). This option would reduce interest rate risk exposure, but clearly will introduce additional costs to refinance. Each £10m rescheduled will cost roughly £200k p.a.
- **HRA** - Again due to the high proportion of fixed rate debt this would be less suitable for the HRA.

3.21 **Risk Spreading:**

- **GF -** This involves borrowing in small tranches to cover the loans maturing over the next two years (either from the PWLB or from other local authorities who may be able to offer better rates over the short-term). This would mitigate refinancing risk whilst also addressing the Council's borrowing need. Borrowing in smaller tranches may be beneficial due to uncertainty and volatility of rates.
- **HRA -** This could also be a suitable approach for the HRA while officers assess the longer-term options available.

3.22 **Deferred Loans:**

- **GF** - There are offers in the market of deferred loans, giving the option to fix the interest rate now for a period of up to 4 years in advance, protecting the Council against any sudden rate rises. The risk is that the Council is committed to the funds once agreed and market rates could potentially be cheaper at a future point in time, however considering the interest rate projections in paragraph 3.3, this is unlikely. The Council has recently entered an agreement to draw down £20M in March 2020 (as approved by Cabinet on 29/11/2017), which covers a large proportion of the variable rate loans maturing later that month. Should further suitable arrangements be identified, a report will be released to Cabinet for approval.
- **HRA** - This option would suit the HRA, however a smaller amount would be recommended considering the high proportion of fixed rate debt (and therefore certainty) within its current portfolio.

3.23 **PWLB Borrowing:**

- **GF** - The default source of borrowing for local authorities is the Public Works Loans Board - a statutory body operating within the UK Debt Management Office (an Executive Agency of HM Treasury). The Council could look to fix out some longer-term debt with the PWLB in 2018/19 whilst interest rates are still relatively low. This could be used to replace temporary borrowing or address the Council's under-borrowed position.
- **HRA** - Again due to the high proportion of fixed rate debt this would be less suitable for the HRA.

3.24 **Municipal Bond Agency:**

- **GF** - The Agency has been established to provide an alternative source of funding for Local Authorities from the PWLB. The Agency is targeting its first bond issue for the first quarter of 2018/19. Should this materialise, further funding may become available to the Council in the near future. This could be used to replace temporary borrowing or to address the Council's under-borrowed position.
- **HRA** - This could also be a suitable option for the HRA.

3.25 **PFI Refinancing:**

- **GF** - The Council is looking to refinance its BSF programme to take advantage of more advantageous rates in the current environment compared to the rates when the BSF deals were first agreed in 2009 and 2010. Phase 2 and 3 have been reviewed and completed with the aim of reviewing Phase 1 at the end of 2017/18 or the early part of 2018/19. These delivered and estmated savings have been built into the Council's MTFS.
- **HRA** - The HRA has no PFI liabilities therefore this option does not apply.

3.26 **Leasing:**

- **GF - T**his remains a value for money option for financing suitable assets with a defined residual value, such as vehicles. Despite the financial crisis causing some banks to withdraw from the market, the remaining funders are willing to take risks on the future residual value of assets, making leasing a cheaper option for financing than funding acquisitions in-house. There is also a benefit to transferring the risk associated with the residual value away from the Council. The most appropriate and cost effective method of financing will continue to be identified for all assets.
- **HRA -** Given the nature of the HRA assets, this approach would not be suitable.

RECOMMENDATION

3.27 To protect the Council from interest rate and refinancing risk, the recommended strategy is to:

- **De-risk the Council's debt portfolio**, by actively reducing interest rate exposure throughout the reporting period (2018/19 – 2020/21), with the following targets:
  - **≤ 25**% of the Council's debt portfolio (GF currently **29**%; HRA currently **32**%)
  - **≤ 35**% of the Council's CFR (GF currently **43**%; HRA currently **35**%)
- **Address any additional borrowing requirement** resulting from anticipated future capital investment, and
- Within this context, **maintain the Council's under-borrowed position as far as possible**, to keep financing costs to a minimum.

4 ANNUAL INVESTMENT STRATEGY

CONTEXT

4.1 The Council's general policy objective is to invest its surplus funds prudently, which involves managing a number of risks as outlined later in this section. The Authority's investment priorities (in order) are as follows:

- the **security of capital**;
- the **liquidity of investments**, and
- **optimum yield commensurate with the above**

4.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

STRATEGY

4.3 As outlined in the previous section, the Council is currently maintaining an under-borrowed position; and is likely to continue this strategy in 2018/19. By borrowing internally, the Council is able to keep its investment balances low, thereby reducing its exposure to security risk.

Credit and Counterparty Risk (Security)

4.4 In the context of investments, this refers to the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

4.5 The Council maintains a list of approved investment counterparties based on the creditworthiness service provided by Link Asset Services Limited. This service employs sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

4.6 Members are asked to approve the investment counterparties and limits overleaf:

	Maximum Amount	Maximum Duration
UK Government Debt	Unlimited	5 yrs.
Banks (subject to Link rating: minimum F1 / A-)*	Single - £10m Group - £15m	2 yrs.
Barclays Bank – the Council's Banker	£10m	liquid
Building Societies (subject to Creditworthiness Policy)	£5m	6 mths.
Local Authorities	£10m	1 yr.
Money Market Funds (AAA-mmf rated)**	£10m	liquid

**Specific banks will be subject to maximum durations depending on Link's Credit List.*

***Excluding LVNAV funds as referred to in paragraph 4.10.*

4.7 All credit ratings will be monitored on weekly basis and officers are alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service on a daily basis:-

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

4.8 The Council's Creditworthiness Policy can be found in Appendix G.

Price Risk (Security)

4.9 In the context of investments, this refers to the risk that, through adverse market fluctuations in the value of the principal sums an organisation invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. In other words the Council fails to protect itself against a loss or fall in value of principal sums invested.

4.10 One upcoming reform which may introduce an element of price risk is the **Money Market Fund (MMF) Reforms**, which introduce a new structural fund - the Low Volatility Net Asset Value (LVNAV) Fund - and other changes to the existing Money Market Funds. These regulations will apply to new funds from July 2018 and existing funds from January 2019. Although the advice the Council has received suggests that the probability of funds fluctuating is very low nevertheless the principal amount invested in LVNAV funds may reduce from time to time**. For this reason, the overriding recommendation of the Investment Strategy is <u>not</u> to invest in LVNAV funds or any other MMF funds where the principal invested is subject to variation**.

Legal and Regulatory Risk (Security)

4.11 This is the risk that the organisation 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 that the organisation suffers losses accordingly.

4.12 One recent regulatory change which may impact on the Council's future investment activities is the **Markets in Financial Institutions Directive (MiFiD II)**. Effective from the 3rd January 2018, this introduced a number of key changes to client categorisation, meaning local authorities (including Police and Fire Authorities) have to opt- up to professional client status (with individual counterparties) in order to access certain products. The opt-up process involved the Council being assessed against a number of qualitative and quantitative tests. To date, officers have received confirmation of professional client status from all but two counterparties. It is expected that business will continue as usual for the foreseeable future, however officers will continue to monitor the situation and report on any risks to the criteria being met.

4.13 Another upcoming change is the introduction of **IFRS9 - Financial Instruments**, which changes the way that investments are accounted for. This is a new requirement for 2018/19 which could potentially impact the Council's general fund balances in two ways:

- The change of accounting treatment of certain instruments, which can introduce an element of market volatility to investment valuations
- The introduction of an expected credit losses model, in which the Authority must recognise potential losses (as opposed to the current requirement to recognise actual losses)

4.14 Given the current size and nature of the Council's investment portfolio, the impact of is expected to be fairly low, however this is subject to the outcome of a recent CIPFA consultation.

Liquidity Risk

4.15 This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

4.16 In line with the CLG investment advice on the liquidity of investments, the Council will aim to keep a proportion of the investment portfolio totally liquid (i.e. use of FIBCA and Money Market Funds).

4.17 In a period of prolonged low interest rates, accepted practice would be to lengthen the investment period to lock in to higher rates. However, the uncertainty and volatility in the financial markets has heightened credit risk. As a consequence the Council will keep the investment maturity relatively short, which is reflected in the maturity periods specified in paragraph 4.6.

Yield

4.18 As a result of continuing stress within the market, opportunities for investment are limited and returns are expected to remain subdued. The Council will seek to maximise returns from its investments but this will be secondary to security and liquidity priorities. As shown in paragraph 3.3, the base rate is expected to increase at least once before the end of 2018/19, and could rise as far as 1.50% by quarter 2 2019/20. Investment yields are therefore likely to increase as a result.

4.19 Although the Council currently has a good spread of investment instruments, officers will continue to evaluate alternative investment options that meet the principles of security, liquidity and yield. Consideration will be given to alternative investment instruments and whether they are suitable for the investment portfolio. Proposals for new investment instruments will be taken to Treasury Management Panel for discussion and advice will be sought from Link prior to making any investment decisions.

Diversification

4.20 In addition to the core investment principles of security, liquidity and yield the Council will also seek to diversify investments to avoid concentration in specific banks, types of instrument, sovereign state etc.

4.21 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels are set to ensure prudent diversification is achieved and these, together with minimum ratings and cash limits, are shown in the table at paragraph 4.6.

Berneslai Homes

4.22 The funds of Berneslai Homes continue to be ring fenced in a segregated Barclays account, with clear separation from Council funds. Officers of the Council are responsible for the management of Berneslai Homes’ cash balances and the account is run in accordance with Treasury Management best practice and the effective management of risk.

LIST OF APPENDICES

A. Treasury Management Policy Statement 2018/19

B. Treasury Management Scheme of Delegation

C. MRP Policy Statement 2018/19

D. Policy on Use of Financial Derivatives

E. HRA Borrowing Strategy 2018/19

F. Prudential and Treasury Indicators 2018/19

G. Additional Investment Strategy Information and Limits

H. Risk Schedule / Approach to Risk Management

I. Capita Economic & Interest Rate Forecast November 2017

APPENDIX A

TREASURY MANAGEMENT POLICY STATEMENT 2018/19

1 Introduction & Background

1.1 The Treasury Management Code of Practice requires local authorities to produce a Treasury Management Policy and Strategy Statement on an annual basis.

1.2 The Council adopted the original CIPFA Code of Practice on 13th February 2002, and this resolution is carried through to the revised codes. Therefore, the Treasury Policy Statement for 2018/19 has been prepared in compliance with the latest code.

1.3 Accordingly, the Council will create and maintain the following key documents in accordance with the revised Code of Practice and other relevant guidance:

- Treasury Management Policy Statement, outlining the key objectives of its Treasury Management activities;
- Treasury Management Strategy Statement including the Annual Investment Strategy setting out the specific expected Treasury Management activities for the forthcoming financial year;
- Treasury Management Practices (TMP's) setting out the manner in which the Council will seek to achieve its objectives, and prescribing how it will manage and control those activities;
- Treasury Management Prudential Indicators as prescribed within the Prudential and Treasury Management Codes.

1.4 The Council will receive reports on its Treasury Management activities, including as a minimum, an annual strategy for the forthcoming year, an annual report after year end and interim quarterly reports.

1.5 The Council delegates responsibility for the implementation and monitoring of its Treasury Management policies and practices to Full Council, and for the execution and administration of Treasury Management decisions to the Section 151 Officer, who will act in accordance with the Council's Policy Statement and the CIPFA Code of Practice.

1.6 The Council nominates the Treasury Management Panel and the Audit Committee as being responsible for ensuring the effective scrutiny of the Treasury Management Strategy and Policies.

1.7 The Treasury Management Panel will meet on a quarterly basis to monitor and review the Councils implementation of the Treasury Management Strategy and Policy. The Audit Committee will receive reports through which it will gain assurance regarding the effective implementation of the Strategy and Policy.

1.8 Internal Audit consider on an annual basis carrying out a regulatory review of the Treasury Management function including probity testing. This decision is made on a risk-based strategy and discussed and agreed with management.

2. Policies and Objectives of Treasury Management Activities

2.1 The Council defines its Treasury Management activities as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 Approved activities of the Treasury Management operation cover:

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing cash flow;
- Banking activities;
- Leasing; and
- Managing the risk associated with the Council's Treasury Management activities.

2.3 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 include their risk implications for the organisation.

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

2.5 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The Section 151 Officer has delegated powers to select the most appropriate form of capital financing (including leasing arrangements) from the approved sources. The source from which the borrowing is taken and type of borrowing should allow the Council transparency and control over its debt.

2.6 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Borrowing in advance of need will only be undertaken when there is a clear business case for doing so.

2.7 The Council's primary objective in relation to investment remains the security of capital. The liquidity of the Council's investments and the yield earned remain important but secondary considerations.

2.8 The Annual Investment Strategy details the categories of investment the Council will invest in, maturity periods and criteria for selecting investment counterparties. Any revisions to these criteria will require Council approval.

APPENDIX B

TREASURY MANAGEMENT SCHEME OF DELEGATION

Full Council

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

Boards/committees/council/responsible body

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- Budget consideration and approval;
- Approval of the division of responsibilities;
- Receiving and reviewing regular monitoring reports and acting on recommendations;
- Approving the selection of external service providers and agreeing terms of appointment.

Body/person(s) with responsibility for scrutiny

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

The S151 (responsible) officer

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit, and liaising with external audit;
- Recommending the appointment of external service providers.

APPENDIX C

2018/19 MINIMUM REVENUE PROVISION (MRP) STATEMENT

The Authority is required to make a prudent provision for debt redemption known as the Minimum Revenue Provision (MRP). Guidance on MRP has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under Section 21(1A) of the Local Government Act 2003. The four MRP options available are:

Option 1: Regulatory Method;
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

NB This does not preclude other prudent methods

MRP in 2018/19: Options 1 and 2 may only be used for General Fund supported expenditure. Methods of making prudent provision for General Fund self-financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Authority chooses).

The MRP Statement is required to be submitted to the Authority before the start of the financial year for approval. Any revision of which must also be submitted to the Authority for approval. The Authority is recommended to approve the following statement:

1. **For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with Option 3;**
2. **For supported capital expenditure incurred after 1st April 2008, MRP will be determined in accordance with Option 3;**

a) **For non-supported (prudentially borrowed) capital expenditure incurred after 1st April 2008, MRP will be determined in accordance with Option 3;**
b) **Within Option 3, MRP is permitted to be calculated in one of two ways – equal instalments or on an annuity basis. The Authority has chosen to calculate MRP on an annuity basis;**
c) **MRP will normally commence in the financial year following the one in which expenditure is incurred. However, MRP Guidance permits local authorities to defer MRP until the financial year following the one in which the asset becomes operational. The Authority has chosen to employ this "MRP Holiday" on the significant qualifying projects.**

MRP in respect of on balance sheet leases will match the annual principal repayment for the associated deferred liability. This approach will produce an MRP charge comparable to that under Option 3 in that it will run over the life of the lease term.

APPENDIX D

POLICY ON USE OF FINANCIAL DERIVATIVES

1. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of financial derivatives. The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the TMSS.

2. The Council will only use derivatives where they can be clearly demonstrated to reduce the overall level of financial risk

3. Derivatives may be arranged with any organisation that meets the Council's approved investment criteria.

4. The Council will only use derivatives after seeking a legal opinion and ensuring that officers have the appropriate training to effectively manage their use.

APPENDIX E

Housing Revenue Account (HRA)
Borrowing Strategy
2018/19

1 Executive Summary

1.1 This year's borrowing strategy is driven by two key issues:

- The PWLB variable loans (£46M) maturing in 2019/20;
- A reducing Capital Financing Requirement (CFR),and
- The recent increase in the Bank of England (BoE) base rate; and the prospect of further rate rises in the not-so-distant future

1.2 Several borrowing options are being considered (section 5 refers) which seek to optimise the HRA debt position in relation to risk and cost (i.e. improving certainty whilst keeping the cost of carry to a minimum). Whilst the HRA has a high proportion of fixed rate debt already, the changing interest rate environment is an important issue to respond to.

Recommendations

1.3 It is recommended that members note:

- the borrowing options outlined in Section 5
- the prudential indicators set out on pages 35-36

2 Background

2.1 CIPFA's Prudential Code for Capital Finance in Local Authorities (Prudential Code) sets out a number of reporting requirements, including the receipt and approval of an annual Treasury Management Policy and Strategy Statement (TMSS), which covers a range of Prudential and Treasury Management indicators. Subject to upcoming reforms - in relation to the Prudential and Treasury Management Codes - the Council (as an HRA authority) must disclose separate HRA and non-HRA indicators.

2.2 Following the reform of the HRA subsidy system, on 1st April 2012 the Council notionally split each of its existing long-term loans into General Fund (GF) and Housing Revenue Account (HRA) pools.

2.3 This split included all long-term fixed and variable rate debt, from both the Public Works Loan Board (PWLB) and market sources. The HRA was apportioned debt of £269M in addition to the £22M payment made to Government to 'buy out' of the subsidy system, giving a total debt level of £291M.

2.4 Debt costs account for approximately 20% of expenditure on the business plan and therefore represent an area of key risk. Given the significance of debt management to the business plan, it is acknowledged that there is a need for a separate borrowing strategy for the HRA and this is addressed within the TMSS.

3 Current Portfolio Position

Borrowing Need / Capital Financing Requirement (CFR)

3.1 One of the key prudential indicators is the Capital Financing Requirement (CFR), which reflects the HRA's underlying need to finance capital expenditure by borrowing. Any capital expenditure that is not resourced immediately (from useable capital receipts, capital grants and contributions or charges to revenue) will result in an increase in the CFR.

3.2 The HRA CFR has been reduced from £291M at the implementation of Self-financing, to £277M at the end of 2016/17. The reduction is due to applied capital receipts from housing properties sold under the Right to Buy Scheme. Where sales under Right-to-Buy exceed those assumed in the Self Financing Settlement the Council is allowed to retain an amount to cover the housing debt which would have been supported from the rental income on the additional properties sold. It is considered prudent to apply this funding to reduce the CFR. In addition, a 50 year annuity debt repayment policy was agreed with the Council in early 2016 and has been reflected within the debt figures.

3.3 In the July 2015 Emergency Budget, the Chancellor of the Exchequer stated that social housing rents would decrease by 1% per annum for the next 4 years (from 2016/17 to 2019/20), with the aim of reducing the Housing Benefit bill. As a result the HRA debt can no longer be repaid within the 30 Year Business Plan. From 2020/21 to 2024/25, housing rents will be allowed to increase by the Consumer Price Index of inflation (CPI) plus 1%, however this is insufficient to negate the impact of the previous 4 years' reductions.

3.4 The table below outlines the HRA's projected borrowing need over the next 3 years, compared to the opening position for 2017/18. This includes the planned expenditure per the approved capital programme, together with approved resources yet to be allocated to schemes:

	2017/18 Estimate (£M)	2018/19 Estimate (£M)	2019/20 Estimate (£M)	2020/21 Estimate (£M)
Opening Capital Financing Requirement	**277**	**272**	**266**	**260**
Capital Investment	25	37	27	26
Resources Utilised	(25)	(37)	(27)	(26)
Increase in CFR from In Year Capital Investment	-	-	-	-
Amount Set Aside to Repay Debt	(5)	(6)	(6)	(7)
Closing Capital Financing Requirement	**272**	**266**	**260**	**253**
External Debt Position	259	257	208	206
Under-Borrowed Position (Internal Borrowing)	13	9	52	47

3.5 There is no statutory requirement to charge a Minimum Revenue Provision (MRP) as with the GF CFR; however the table above assumes a voluntary set aside amount of £2M per year, in line with the debt repayment policy approved in early 2016. It also assumes a capital receipts set aside (from the sale of Right-to-Buy assets) of around £4M per year.

Comparison to HRA Debt Cap

3.6 Another indicator compares the HRA's CFR projections to the debt cap of £301M, as set by the Department for Communities and Local Government (DCLG). Current projections would leave headroom of approximately £29M at the end of 2017/18, rising to £48M by 2020/21 (see table below). However in the new financial environment, additional borrowing to fund extra capital investment is unlikely to be affordable.

	2017/18 Estimate (£M)	**2018/19 Estimate (£M)**	**2019/20 Estimate (£M)**	**2020/21 Estimate (£M)**
HRA Debt Cap	301	301	301	301
HRA CFR	272	266	260	253
Headroom	**29**	**35**	**41**	**48**

3.7 In the 2017 Autumn Budget, the Chancellor announced the removal of the HRA debt cap for high-need areas. These high-need areas are yet to be defined, however as shown above the debt cap is not expected to be an issue for the near future.

Internal Borrowing as a % of CFR

3.8 Another useful comparator is the under-borrowed (internal borrowing) position as a percentage (%) of the CFR. This shows how the HRA's exposure to interest rate and refinancing risk is expected to change over the coming years. Based on current projections, this % is expected to rise to 20% as some of its existing debt matures:

	2017/18 Estimate (£M)	**2018/19 Estimate (£M)**	**2019/20 Estimate (£M)**	**2020/21 Estimate (£M)**
HRA CFR	272	266	260	253
Internal Borrowing	13	9	52	47
As % of CFR	**5%**	**3%**	**20%**	**19%**

4 Key Treasury Risks

Interest Rate Risk

3.1 Interest rate risk (borrowing) is the risk of an adverse movement in interest rates, leading to an increase in financing costs or lost opportunity costs. The two indicators relevant to interest rate risk are the upper limits on fixed and variable interest rate exposures.

3.2 The table below provides a breakdown of the estimated debt portfolio at the end of 2017/18. Based on current projections, it is anticipated that 18% of the HRA debt portfolio will be sensitive to interest rate fluctuations:

Borrowing Method	Estimate at 31.03.18 (£M)	% of Portfolio	Subject to Interest Rate Risk?
PWLB Fixed	177	68	N
Market Fixed*	36	14	N
PWLB Variable	46	18	Y
TOTAL	**259**	**100**	

**Note – although market loans are viewed as fixed rate borrowing, there is a potential interest rate risk attached to these instruments should the lender exercise the call option.*

3.3 The PWLB variable loans (£46M) continue to represent excellent value at rates of 0.37% (£28M) and 0.42% (£18M). Whilst these loans are subject to interest rate risk (particularly in light of the recent base rate increase), the semi-annual rate fixing provides some protection against potential increases.

3.4 In addition to this - as identified in paragraph 3.4 - the HRA is maintaining an under-borrowed position. Assuming this under-borrowed amount is subject to interest rate fluctuations, it would take the variable interest rate exposure to up to 22%:

Borrowing Method	Estimate at 31.03.18 (£M)	% of Portfolio	Subject to Interest Rate Risk?
PWLB Fixed	177	65	N
Market Fixed*	36	13	N
PWLB Variable	46	17	Y
Internal Borrowing	13	5	Y
TOTAL	**272**	**100**	

**Note – although market loans are viewed as fixed rate borrowing, there is a potential interest rate risk attached to these instruments should the lender exercise the call option.*

3.5 Whilst this figure is within the upper limit for variable rate exposure (see page 36), interest rates are expected to rise following the recent base rate increase. It is therefore important to monitor this position throughout the year. The table below shows the interest rate forecasts from our advisors (Link Asset Services) and Capital Economics - an independent advisory group specialising in the financial markets.

Bank Rate	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Link	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%
Capital Eco.	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%

Refinancing Risk

3.6 Refinancing risk is the risk of refinancing debt under unfavourable terms, either due to a lack of availability of replacement financing or an increase in interest rates. The key indicator relevant to refinancing risk is the maturity structure of borrowing. From 2018/19, this indicator will include variable rate debt.

3.7 The table below shows the estimated maturity profile of fixed (and variable) rate debt as at the end of 2017/18. Current projections suggest there is little risk of breaching these limits:

	Lower Limit (%)	Upper Limit (%)	Estimated Profile as at 31.03.18		
			Fixed (%)	Variable (%)	Overall (%)
Maturity Structure of Rate Borrowing – (HRA)					
Under 12 months	0	50	1	0	1
12 months to 2 years	0	25	1	18	19
2 to 5 years	0	25	3	0	3
5 to 10 years	0	25	8	0	8
10 to 20 years	0	75	5	0	5
20 to 30 years	0	75	12	0	12
30 to 40 years	0	75	29	0	29
40 to 50 years	0	75	23	0	23

3.8 The table below compares the projected internal borrowing position to the level of useable reserves, to show the HRA's estimated net borrowing requirement over the next 3 years. Current projections would result in a net borrowing requirement of £38M in 2019/20, extending to £41M in 2020/21:

	2017/18 Estimate (£M)	**2018/19 Estimate (£M)**	**2019/20 Estimate (£M)**	**2020/21 Estimate (£M)**
Internal Borrowing	13	9	52	47
Usable Reserves	38	24	14	6
Net Borrowing Requirement	**(25)**	**(15)**	**38**	**41**

3.9 Paragraph 4.2 refers to fixed market loans of £36M (often referred to as LOBOs), which are (in theory) subject to interest rate fluctuations. Due to the low interest rates experienced in recent times, the rate associated with these LOBOs (4.75%) is above current PWLB levels; therefore these loans are unlikely to be called in 2018/19. However it is important to monitor this position throughout the year in light of interest rate expectations (see paragraph 4.5).

4 Borrowing Strategy for 2018/19

4.1 The key aim of the HRA borrowing strategy is to manage the affordability of debt repayments within the 30 year business plan. It also seeks to mitigate the HRA's exposure to interest rate and refinancing risk (section 4 refers). The Director of Corporate Services for Berneslai Homes will be consulted on any borrowing decisions to ensure the impact on the HRA, and the 30 year business plan, are fully understood. The options are set out below:

Borrowing on Need / Temporary Borrowing

4.2 As shown in paragraph 4.8, the HRA is in an under-borrowed position. Essentially, this means that the actual level of debt is below the CFR and the HRA has used internal resources (reserves and balances) to fund some of its unfinanced capital expenditure. The main benefit of the strategy of internal borrowing is that the cost of carry associated with long-term fixed rate borrowing compared to investment returns is such that the use of internal resources remains an attractive means of minimising the cost of external debt.

4.3 Whilst there is a limited borrowing requirement in the immediate future (the amount of useable reserves exceeds the internal borrowing position), this is expected to change in 2019/20 as the PWLB variable loans (£46M) mature.

4.4 Given the limited borrowing requirement, recent strategies have been to monitor the HRA treasury position and to borrow short-term should any need arise. However considering the latest interest rate expectations, a more proactive approach may be required for 2018/19 (some alternative options are set out from below).

Premature Redemption of Debt

4.5 Given the Council's budget deficit, consideration had been given to restructuring existing fixed term loans. There is a potential impact on the HRA as the debt split was only notional, therefore any premature repayments will include elements of both GF and HRA debt.

Borrowing in Advance of Need

4.6 Authorities are permitted to borrow up to 3 years in advance of need for planned capital investment.

4.7 There may be opportunities to borrow in advance of need to fund future loan maturities, but this will only be undertaken where there is a key business case for doing so.

Charging of Debt Interest Costs

4.8 Long-term borrowing, post 1st April 2012 is allocated directly to either the GF or HRA pool. Interest payable and other charges (e.g. premiums on early redemption) will be allocated to the respective revenue account.

4.9 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest will be transferred on a quarterly basis between the General Fund and HRA at the monthly average rate earned by the Council on its portfolios of treasury investments and short-term borrowing.

Risk Spreading

4.10 Borrow in small tranches to cover the debt maturing over the next 3-5 years. This will spread the refinancing risk and address the borrowing need. Borrowing in smaller tranches may be beneficial due to uncertainty and volatility of rates.

Forward / Deferred Loans

4.11 There are offers in the market of deferred loans, giving the option to fix the rate now for a period of up to 4 years in advance. This would allow the Authority to continue a short term, cheap position, with the comfort of fixed rate loans being delivered in the future. The risks are that once agreed, the Authority is committed to the funds and the market rates could potentially be lower at the point of drawdown.

Municipal Bond Agency

4.12 This has been established to offer an alternative source of borrowing for local authorities to the PWLB. The Agency aims to provide cheaper capital finance to local authorities, undercutting the PWLB, via periodic bond issues. The Authority is a shareholder in the Agency, together with 55 other local authorities and the Local Government Association.

HRA Prudential Indicators

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce a suite of Prudential and Treasury Management Indicators. In accordance with the principle of a developing a distinct borrowing strategy for the HRA, a separate suite of indicators have been produced for 2018/19 to 2020/21. These indicators are subject to the upcoming reforms in relation to the Prudential and Treasury Management Codes.

Compulsory Indicators

1. Capital Expenditure

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£M	£M	£M	£M
HRA	25	37	27	26

2. Capital Financing Requirement

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£M	£M	£M	£M
HRA	272	266	260	253

3. HRA Limit on Indebtedness

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£M	£M	£M	£M
HRA CFR	272	266	260	253
CLG HRA Debt Cap	301	301	301	301
Headroom	29	35	41	48

4. Gross Debt and the Capital Financing Requirement

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£M	£M	£M	£M
Gross Debt	259	257	207	206
Capital Financing Requirement	272	266	260	253
Under Borrowing	**13**	**9**	**53**	**47**

5. Ratio of Financing Costs to Net Revenue Stream

	2017/18 Approved	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%	%
HRA	43.8	44.9	46.8	46.8

6. Upper Limit on Fixed and Variable Interest Rate Exposures

	2018/19	2019/20	2020/21
	%	%	%
Upper Limit for Fixed Interest Rate Exposure	100	100	100
Upper Limit for Variable Rate Exposure	25	25	25

7. Maturity Structure of (Fixed and Variable Rate) Borrowing

	Lower Limit	Upper Limit	Estimated Profile as at 31.03.18		
			Fixed	Variable	Overall
	%	%	%	%	%
Less than 12 months	0	50	1	0	1
12 months & within 24 months	0	25	1	18	19
24 months & within 5 years	0	25	3	0	3
5 years & within 10 years	0	25	8	0	8
10 years & within 20 years	0	75	5	0	5
20 years and within 30 years	0	75	12	0	12
30 years and within 40 years	0	75	29	0	29
40 years and within 50 years	0	75	23	0	23
50 years and above	0	75	0	0	0

APPENDIX F

PRUDENTIAL AND TREASURY INDICATORS 2018/19 - 2020/21

Estimates of Capital Expenditure (General Fund and HRA)

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	41,411	68,601	34,895	6,009	4,040
HRA	27,218	24,564	24,580	10,802	6,650
Total	**68,629**	**93,165**	**59,475**	**16,811**	**10,690**

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

Estimates of Capital Financing Requirement (General Fund and HRA)

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases).Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.The Council currently has £239M of such schemes within the CFR. The Council is asked to approve the CFR projections below:

Capital Financing Requirement £000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
CFR – GF	663,489	673,482	701,237	744,192	774,415
CFR – HRA	277,096	272,067	266,039	259,620	252,696
Total CFR	**940,585**	**945,549**	**967,276**	**1,003,812**	**1,027,111**

Limits to Borrowing Activity

The Operational Boundary (General Fund and HRA)

This is the limit beyond which external debt is not normally expected to exceed.This limit is set to match the Capital Financing Requirement as shown above:

Operational Boundary £000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	707,711	730,928	768,627	793,549
Other Long Term Liabilities	237,838	236,348	235,185	233,562
Total	**945,549**	**967,276**	**1,003,812**	**1,027,111**

The Authorised Limit for External Debt (General Fund and HRA)

A further key prudential indicator represents a control on the maximum level of borrowing.This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit has been set at £30M above the Operational Boundary.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit:

Authorised Limit £000	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Debt	737,711	760,928	798,627	823,549
Other Long Term Liabilities	237,838	236,348	235,185	233,562
Total	**975,549**	**997,276**	**1,033,812**	**1,057,111**

HRA Debt Cap

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime, which currently stands at £301M for Barnsley. The table below shows the HRA's expected level of headroom compared to this limit:

HRA Debt Limit (£000)	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
HRA Debt Cap	301,000	301,000	301,000	301,000
HRA CFR	272,067	266,039	259,620	252,696
Headroom	**28,933**	**34,961**	**41,380**	**48,304**

Interest Rate Exposure and Maturity Structure of Borrowing (General Fund and HRA)

There are three debt related treasury activity limits.The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

General Fund

£m		2018/19	2019/20	2020/21
Interest Rate Exposures – (GF)				
		Upper	**Upper**	**Upper**
Upper Limit on Fixed Interest Rates based on Net Debt (GF)		90%	90%	90%
Upper Limit on Variable Interest Rates based on Net Debt (GF)		25%	25%	25%
Maturity Structure of Fixed Interest Rate Borrowing 2017/18- (GF)				
			Lower	**Upper**
Under 12 months			0%	50%
12 months to 2 years			0%	25%
2 years to 5 years			0%	25%
5 years to 10 years			0%	25%
10 years to 20 years			0%	75%
20 years to 30 years			0%	75%
30 years to 40 years			0%	75%
40 years to 50 years			0%	75%

Housing Revenue Account

£m		2018/19	2019/20	2020/21
Interest Rate Exposures – (HRA)				
		Upper	**Upper**	**Upper**
Upper Limit on Fixed Interest Rates based on Net Debt (GF)		100%	100%	100%
Upper Limit on Variable Interest Rates based on Net Debt (GF)		25%	25%	25%
Maturity Structure of Fixed Interest Rate Borrowing 2017/18- (HRA)				
			Lower	**Upper**
Under 12 months			0%	25%
12 months to 2 years			0%	25%
2 years to 5 years			0%	25%
5 years to 10 years			0%	75%
10 years to 20 years			0%	75%
20 years to 30 years			0%	75%
30 years to 40 years			0%	75%
40 years to 50 years			0%	75%

Maximum Principal Sums Invested for more than 365 Days (General Fund)

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit: -

Maximum Principal Sums Invested > 365 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal Sums Invested > 365 Days	£m 20	£m 20	£m 20

Ratio of Financing Costs to Net Revenue Stream(General Fund and HRA)

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	**2017/18 Approved**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
GF	9.4	8.2	8.6	8.8
HRA	43.8	44.9	46.8	46.8

Gross Debt and the Capital Financing Requirement(General Fund and HRA)

Gross Debt & CFR	**2018/19 Estimate**
	£M
Outstanding Borrowing	570
Other Long-Term Liabilities	228
Gross Debt	**798**
Max CFR	967
Headroom	**169**

APPENDIX G

ADDITIONAL INVESTMENT STRATEGY INFORMATION AND LIMITS

1. The Council may invest money using any of the following instruments:

   - interest-bearing bank accounts,
   - fixed term deposits,
   - callable deposits where the Council may demand repayment at any time (with or without notice),
   - certificates of deposit,
   - bonds, notes, bills, commercial paper and other marketable instruments, and
   - shares in money market funds and other pooled funds

   Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures specified in section 3.22 of the report.

2. Investments made by the Authority will be classified as either specified or non-specified investments. The CLG Guidance defines specified investments as those:

   - denominated in pound sterling,
   - due to be repaid within 12 months of arrangement,
   - not defined as capital expenditure by legislation, and
   - invested with one of:
     - the UK Government,
     - a UK local authority, parish council or community council, or
     - a body or investment scheme of "high credit quality"

   It should be emphasised that institutions with a rating within the single A band are considered to be 'high credit quality' (Fitch). At present, the Council will place investments with UK and non-UK institutions that have a minimum long term rating of A- or equivalent. In the current volatile economic environment there is the possibility that the ratings of financial institutions could be downgraded across the board. The Authority will review its view on minimum credit ratings should this become the case.

   In terms of Sovereign ratings, the UK is currently rated AA, but is on negative watch due to Brexit concerns. To reflect this uncertainty, the Council will use UK banks irrespective of the UK sovereign rating and any other sovereign with a minimum rating of AA-.Any new specified investments will be made within the limits shown within table 1 in the AIS. For money market funds and other pooled funds 'high credit quality' is defined as those having a credit rating of 'AAA-mmf' or higher.

3. Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. On-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below:

Non-Specified Investment Limits

	Cash limit
Total long-term investments	£20m
Total investments without credit ratings or rated below [A-]	£30m
Total investments with institutions domiciled in foreign countries rated below [AA-]	£10m
Total non-specified investments	£60m

All non-specified investments must be approved in accordance with the authorisation procedures as detailed in Treasury Management Practice Document 5: Organisation, Clarity and segregation of Responsibilities and Dealing Arrangements. This involves prior authorisation and approval of the Acting Head of Financial Services.

4. To minimise counterparty risk, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (e.g. King & Shaxson), foreign countries and industry sectors as below:

Investment Limits

	Cash limit
Any single organisation, except the UK Central Gov.	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account (e.g. King & Shaxson)	£30m per broker
Foreign countries	£15m per country
Registered Providers	£10m in total
Unsecured investments with Building Societies	£10m in total
Money Market Funds	£30m in total
Loans to small businesses	To be determined

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

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

7. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

   - no new investments will be made,
   - consideration will be given to recalling or selling any existing investments with the affected counterparty where there will be no cost to the authority

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

APPENDIX H

RISK SCHEDULE / APPROACH TO RISK MANAGEMENT

The following schedule contains information from the Treasury Management Practice documents and the Council's risk management software, and provides a summary as to how the Council manages the various treasury management risks.

1. Credit and Counterparty Risk

Risk: Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment.

Mitigation: Credit & Counterparty risk is addressed through the use of the Annual Investment Strategy (AIS) as detailed in Section 6. The implications of 'Bail-in' will impact on the ratio of probability of loss. The AIS aims to reduce the impact through diversification whilst acknowledging that the probability of default will potentially increase.

Probability: Medium
Impact: High

2. Liquidity Risk

Risk: Liquidity risk is the risk that cash will not be available when it is needed.

Mitigation: The Council has access to short-term funding through the money markets and borrowing is also readily available from the PWLB. The Council will also aim to keep a proportion of investments totally liquid i.e. with immediate access.

Probability: Low
Impact: Medium

3. Interest Rate Risk

Risk: Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances.

Mitigation: Both the HRA and particularly the GF debt pools are subject to a degree of interest rate risk. The balancing of risk against cost is a key theme for 2017/18 and is addressed in detail throughout the TMSS.

Probability: Medium
Impact: Very High

4. Exchange Rate Risk

Risk: Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances.

Mitigation: None – the Council undertakes minimal foreign currency transactions, so the risk is negligible.

Probability: Very Low
Impact: Very Low

5. Refinancing Risk

Risk: Refinancing risk is the risk that maturing borrowings cannot be refinanced on terms that reflect the provisions made by the Council.

Mitigation: The GF has a significant amount of temporary borrowing which will need to be refinanced and this is addressed in the borrowing strategy. The PIs place limits on the maturity structure of borrowing to limit the refinancing risk.

Probability: Medium
Impact: High

6. Legal and Regulatory Risk

Risk: Legal and regulatory risk is where the Council fails to act in accordance with its legal powers or regulatory requirements, and suffers losses accordingly.

Mitigation: There are a number of regulatory changes being introduced in 2018/19, however the Council receives professional advice from Treasury Management advisers and officers receive regular training updates.

Probability: Medium
Impact: High

7. Fraud, Error and Corruption Risk / Contingency Management Risk

Risk: Fraud error and corruption and contingency management risk is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings.

Mitigation: Internal Audit consider on an annual basis carrying out a regulatory review of the treasury management function including probity testing. This decision is made on a risk-based strategy and discussed and agreed with management. The recommendations of these reports are actioned in accordance with the agreed timetable.

Probability: Low
Impact: Medium

8. Market Risk

Risk: Market risk is the risk that through adverse market fluctuations in the value of the principal sums the Council invests, its stated investment objectives of security of capital is compromised.

Mitigation: The use of alternative investments vehicles such as property funds may increase the level of market risk. Investment in such instruments will only be undertaken after rigorous assessment and on the advice of Capita Asset Services.

Probability: Medium
Impact: Medium

APPENDIX I

LINK ECONOMIC & INTEREST RATE FORECAST NOVEMBER 2017

Part of Link's service as treasury advisors is to assist the Council in formulating a view on interest rates. This appendix sets out the latest information provided by Link on interest rates:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%.The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. Has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019.These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.