Mole Valley District Council

Agenda Item 5

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Date	31st October 2019
Ward (s) affected	The Treasury Management Mid-Year Monitoring Report covers the whole District.

Subject	**Treasury Management – Mid-Year Monitoring Report – 2019/20.**

Recommendations

The Committee is asked to:

1) Receive the Treasury Management Mid-Year Monitoring Report for the period ended 30th September 2019 and note that, in the first half year, the Council has operated fully in accordance with the Prudential Limits and levels of approved lending stipulated in the Treasury Management Strategy for 2019/20.

2) Commend the report to Council making any other relevant recommendations and observations as Members see fit.

Executive Summary

This report outlines the performance of the Treasury Management function of the Council for the six months ending 30th September 2019.

No changes are proposed to the 2019/20 Prudential Indicators.

In relation to operations during 2019/20, to date, the key points to note are:

- All treasury related transactions were undertaken by authorised officers and within the limits approved by the Council.
- All investments were to counterparties on the approved lending list.
- The Council did not exceed or operated within the Prudential Indicators for Treasury Management.

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management function.

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by Council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a **Mid-year Review Report** and an Annual Report covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

This report meets those requirements. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's Prudential Indicators (PIs). A definition of these is included at Appendix A. The Treasury Management Strategy 2019/20 to 2021/22 and PIs, were previously reported to Audit Committee on 7th February 2019 and Council on 12th February 2019. These Prudential Indicators set certain limits on borrowing in 2019/20 and no further increase in the operational or authorised limits is proposed.

In the spring of 2018, the Government issued new guidance on Local Government's responsibilities for achieving accountability and transparency in relation to borrowing and investments. This was partly in response to an increasing level of investment in non-financial assets, often funded by borrowing.

The main changes brought about by the guidance, to which the Council has to 'have regard' from April 2019 were:

- An increase in the number of 'Prudential Indicators' to cover non-financial as well as financial investments;
- A requirement to produce a Capital Strategy, setting out how the Council evaluates, decides upon and manages capital spending (including borrowing for investment purposes);
- A requirement to produce an Investment Strategy, setting out how the Council evaluates, decides upon and manages spending specifically for the purpose of financial return, ('investment').

Council Strategy Priority Outcomes

Strong governance arrangements mean that resources are directed in accordance with the agreed strategies and according to Prudential Indicators and limits as set out in the 2019/20 Treasury Management Strategy. This requires sound and inclusive decision making and clear accountability for the use of those resources in order to achieve desired outcomes for communities and service users.

The Audit Committee has the authority to determine the Recommendations.

1.0 Background/Introduction

1.1 The Council operates within a balanced budget which broadly means cash raised during the year will meet cash expended. Part of the treasury management operation ensures that this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

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

1.3 Treasury management is defined as:

'The management of the local council'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'.

1.4 This report updates members on 2019/20 treasury management activities as at 30th September 2019 and covers:

- Treasury Management Strategy Statement update.
- Compliance with regulatory requirements (treasury and prudential limits), approved policies and practices for 2019/20.

2. Changes to the Treasury and Capital Strategies

2.1 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

2.2 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure, and are separate from the day to day treasury management activities.

2.3 Revised information is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

2.4 The emphasis on the capital strategy was that it should be a high level corporate document dealing with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the Council. It should also deal with significant commercial, focused on income generation, investments in appropriate detail so that members can properly assess the particular risks in this area.

3. Treasury Management Strategy Statement (TMSS) update

3.1 This part of the report highlights any key changes to the Council's capital activity (the Prudential Indicators - PIs) and proposed treasury management activity (borrowing and investment).

3.2 The Treasury Management Strategy for 2019/20 was approved by Council on 12th February 2019.

3.3 There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4. Compliance with Regulatory Requirements (Treasury and Prudential Limits), Approved Policies and Practices for 2019/20.

Key Prudential Indicators

4.1 This part of the report updates:

- The Council's capital expenditure plans.
- How these plans are being financed.
- The impact of changes in the capital expenditure plans on the Prudential Indicators (PIs) and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.
- Extended limits as required in line with the Asset Investment Strategy.

Borrowing

4.2 Prudential Indicators for 2019/20 were set in accordance with the Prudential Code and the Treasury Management Code of Practice that were approved by Council on 12th February 2019. These Prudential Indicators and the actual performance against them are set out below:

Prudential Indicators for Capital Expenditure and the Financing of the Capital Programme

Prudential Indicator 1 – Capital Expenditure Plans and Financing

4.3 The table below draws together the main strategy elements of the capital expenditure plans, the existing capital programme and the expected financing arrangements of capital expenditure. For the purposes of this table, transfer of funds from MVDC to the wholly-owned company, MOVA, counts as capital expenditure.

Capital	2019/20 Original £m	2019/20 Projection £m
Capital Expenditure	3.071	3.316
Financed by:		
Capital reserves	-1.171	-1.416
Government grants	-0.665	-0.665
Other grants and contributions	-0.565	-0.565
Revenue	-0.670	-0.670
Net financing need for the year	**0.000**	**0.000**

Prudential Indicator 2 - Capital Financing Requirement (CFR)

4.4 The CFR reflects the underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

Other long-term liabilities include credit arrangements associated with finance leases.

Please note that International Financial Reporting Standard (IFRS 16) becomes effective from 1st January, 2020. The Finance Team is currently collating all the relevant information to ensure compliance with the new standard from 1st April 2020. Implementing this new standard may have an impact on our Treasury Management Strategy in 2020/21.

The CFR may increase whenever capital expenditure is incurred. If this expenditure is resourced immediately then there is a zero net increase in the CFR. If this expenditure is not immediately resourced then the CFR of the Council will increase. A positive CFR indicates a borrowing requirement which will incur a Minimum Revenue Provision (MRP) or statutory repayment of principal and interest from the general fund.

4.5 The latest CFR projections are:

	20219/20 Original £m	2019/20 Projection £m
Capital Financing Requirement (CFR)	109.251	113.146
Net Financing need for the year above	0.000	0.000
Less MRP and other Finance	-2.075	-2.075
Movement in CFR	-2.075	-2.075

At present we have funded the acquisition of the Joint Waste Service vehicles through cash flow and will be monitoring the situation closely over the next few months, as subject to suitable interest rates we will be looking to borrow funds to support this capital expenditure.

Affordability Prudential Indicators

a. The previous sections cover the 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 Council's overall finances. The Council is asked to approve the following Indicators:

b. **Ratio of financing costs to net revenue stream** – 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.

Prudential Indicator 3 – Ratio of financing costs to net revenue stream

	2019/20	2019/20
	Original Estimate	Projection
	£m	£m
Net Finance Cost (Revenue)	1.248	1,644
Net Finance Cost (TM Investments)	-0.325	-0.360
Revenue Budget	9.533	9,697
Ratio	**9.68%**	**13.24%**

Borrowing

c. We are monitoring our cash flow and reserves closely over the next 3 months and anticipate that we may need to borrow £4m to fund the JWS Vehicles that we originally funded through cash flow. Apart from this item, it is forecast that no further external borrowings will be required over the remaining three years from 2019/20 through to 2021/22.

Prudential Indicators for Borrowing:

Borrowing Limits

4.6 The first key control over the treasury activity is a Prudential Indicator to ensure that over the medium term, gross borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for 2019/20.

Prudential Indicator 4 – Gross Borrowing and Long-term Liabilities and the Capital Financing Requirement (CFR)

	2019/20 Original Estimate £m	2019/20 Projection £m
External debt		
Debt at 1st April	102.850	102.850
Expected change in debt	0.000	0.000
Other long-term liabilities (OLTL) at 1st April	1.716	1.719
Expected change in OLTL	-0.018	-0.018
Actual gross debt at 31st March	104.548	104.551
Capital Financing Requirement	109.251	113.146
Under/(over) borrowing	4.703	8.595

4.7 The Strategic Director (Section 151 Officer) reports that subject to the impact of 4.5c above, no difficulties are envisaged in complying with this Prudential Indicator during 2019/20.

Prudential Indicator 5 – Operational Boundary

4.8 The **Operational Boundary** is the expected external borrowing position of the Council during the year and periods where the actual position is either below or over the Operational Boundary is acceptable subject to the Authorised Limit not being exceeded without approval from Council. The Treasury Management Strategy agreed by Council on 20th February 2018 included an Operational Boundary of £129.5m.

4.9 The estimate limits and current projection for 2019/20 are set out in the table below and indicate that we will be operating well within the Operational Boundary:

Operational Boundary	2019/20 Original Estimate £m	2019/20 Projection £m
Debt	112.951	107.850
Other long-term liabilities (OLTL)	1.716	1.780
Total	**114.667**	**109.630**

Prudential Indicator 6 – Authorised Limit

4.10 A further Prudential Indicator controls the overall level of external borrowing. This is the **Authorised Limit** which represents the limit beyond which borrowing is prohibited without further approval from Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum external borrowing need with some headroom for unexpected movements. The Authorised Limit is the 'Affordable Borrowing Limit' required by Section 3 of the Local Government Act 2003 irrespective of its indebted status. International Financial Reporting Standards (IFRS) require finance leases to be included under other long-term liabilities on the balance sheet. The Treasury Management Strategy agreed by Council on 20th February 2018 included for an Authorised Limit of £134.7m.

4.11 The original estimate and revised projections for 2019/20 in respect of the Operational Limit, set out in table 4.9 above indicate that we will be operating well within the above Authorised Limit

4.12 **Prudential Indicator 7 - Debt to net service expenditure (NSE) ratio**

Debt to net service Expenditure (NSE) ratio	2019/20 Original Estimate	2019/20 Projection
Gross debt to net service expenditure	15.47:1	15.20:1

4.13 **Prudential Indicator 8 - Commercial income to NSE ratio**

Commercial income to NSE ratio	2019/20 Estimate	2019/20 Projection
Dependence on non-fee and charges income to deliver core services	10.55:1	10.55:1

4.14 **Prudential Indicator 9 - Investment cover ratio**

Investment cover ratio	2019/20 Original Estimate	2019/20 Projection
Investment Cover Ratio	3.63	3.45

4.15 **Prudential Indicator 10 - Loan to value ratio**

Loan to value ratio	2019/20 Original Estimate	2019/20 Projection
Total debt compared to total asset value	33.77%	33.75%

Financial Investment Strategy

4.16 The objectives of the Council's investment strategy are safeguarding the repayment of the principal and interest of its investments on time, the liquidity of those sums, with the investment return. It remains a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

4.17 The Council's in-house investment team manages an investment portfolio of between approximately £10 million and £30 million. Fluctuations will occur during the year as for example council tax and non-domestic rate direct debits are collected in ten months out of twelve and this has a significant effect on the balances that are held at year end. The opening and closing balances on the Council's investment portfolio for the first half of 2019/20 are as follows:

	Investments at 01/04/2019 £m	Investments at 30/09/2019 £m
Temporary investments	8.190	14.776
CCLA Property Fund investment	6.307	6.248
Total investments outstanding	14.497	21.024

4.18 The constituent parts of the investment position as at 30th September 2019 are:

Sector	Country	Up to 1 year £m	1 - 2 years £m	2 – 3 years £m	3 - 5 years £m
Banks	UK	10.276	0	0	0
Building Societies	UK	4.500	0	0	0
Property Fund investment	UK	6.248	0	0	0
Total		**21.024**	**0**	**0**	**0**

4.19 On 30th June 2013 the Council invested £5m in the Charities, Churches and Local Authorities (CCLA) Property Fund. The Fund is a high quality, well diversified commercial and industrial property portfolio. To realise the full potential of this investment it should be considered as a medium to long term placement. Income is received quarterly and in the current economic climate yields remain good.

4.20 The Fund offers all of the advantages of a professionally managed property portfolio, with broadly diversified exposure to high quality properties in the strongest areas of the market. There is a focus on delivering attractive income returns and the fund is actively managed to add value.

4.21 CCLA interest (dividend) earnings to 30th September amounted to approximately £145,000. It is anticipated that the annual interest earnings from the CCLA Property Fund investment will amount to £290,000 out of a total projected interest forecast of £360,000 (original estimate £325,000). Some funds have been moved from short-term investments where interest rates were performing at historically low levels. These funds were re-invested in, better performing, property purchases that are generating a higher rental income.

4.22 It is anticipated that the scope of the Asset Investment Strategy will enable the Council to realise further advantageous investments along the lines of the CCLA.

<u>Prudential Indictors for Investments</u>

4.23 The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also placed an enhanced importance on risk management.

Prudential Indicator 11 – Funds invested for greater than 365 days

4.24 Maximum principal sum limits for investments for periods longer than 365 days maturing in:

2019/20	£10,000,000

4.25 Position as at 30/09/19

Matured or maturing within 2019/20	£0
Maturing in 12 to 24 months (2020/21)	£0
Maturing in 24 to 36 months (2021/22)	£0
Maturing in 36 to 48 months (2022/23)	£0

Prudential Indicator 12 – Interest Rate Exposure (Investment & Debt)

4.26 Interest Rate Exposure on **Investments**

Upper limit for fixed interest rate exposure	100%
Upper limit for variable interest rate exposure	50%

4.27 Position as at 30/09/19

Upper limit for fixed interest rate exposure	64%
Upper limit for variable interest rate exposure	36%

4.28 During the first six months of 2019/20 funds have been retained in short-term investments to meet day to day cash flow requirements. Over the previous two years funds have been invested in, better performing, asset investment purchases that have generated a rental income.

4.29 The Deputy Chief Executive (Section 151 Officer) confirms that all of the Council's investments were placed with organisations approved in the Annual Treasury Management Strategy for 2019/20.

4.30 Interest Rate Exposure on **Debt**

Upper limit for fixed interest rate exposure	100%
Upper limit for variable interest rate exposure	0%

4.31 Position as at 30/09/19

Fixed interest rate exposure	100%
Variable interest rate exposure	0%

Prudential Indicator 13 – Fixed and Variable Interest Rate Borrowing

4.32 Maturity structure of fixed interest rate borrowing in 2019/20:

	Lower	Upper
Under 12 months	0%	50%
12 months to 2 years	0%	0%

2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	0%	100%

4.33 Position as at 30/09/19

No fixed interest rate borrowing has been undertaken in the first 6 months of this year.

4.34 Maturity structure of variable interest rate borrowing in 2019/20:

	Lower	Upper
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	0%	0%

4.35 Position as at 30/09/19

No variable interest rate borrowing has been undertaken in the first 6 months of this year.

4.36 Risk Benchmarking

A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are considered below, although the application of these is more subjective in nature. These were first set in the Treasury Strategy Report 26th January 2010 (Scrutiny and Audit Committee). The following reports the current position against the benchmarks approved.

4.37 Security

The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, was set as follows:

0.05% historic risk of default when compared to the whole portfolio.

The Deputy Chief Executive (Section 151 Officer) can report that the investment portfolio was maintained within this overall benchmark during the first half of the year.

Based on the Council's minimum long-term credit rating of A/A3/A (Fitch/Moody's/Standard and Poor's credit rating agencies) the security benchmarks for each individual year were set as:

Benchmarks	1 year	2 years	3 years	4 years	5 years
Maximum (01/04/19)	0.05%	0.15%	0.28%	0.42%	0.59%
Maximum (30/09/19)	0.05%	0.14%	0.26%	0.40%	0.56%

Since the benchmarks were first included in the Strategy our advisors have received more up to date default information, which reflects increased counterparty defaults during the banking crisis. The table shows how the Council is benchmarking risk.

The Deputy Chief Executive (Section 151 Officer) can report that these benchmarks were not breached during the first half of the year.

Note: The benchmarks are an average risk of default measure, and would not constitute an expectation of loss against a particular investment. Where a counterparty is not credit rated a proxy rating will be applied.

4.38 Liquidity

In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft of £100,000
- Liquid short term deposits of at least £1,000,000 available immediately.

The Deputy Chief Executive (Section 151 Officer) can report that liquidity arrangements were satisfactory during the first half of the year.

4.39 Yield

Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID (London Interbank BID) rate (average of 0.57% for the year to date).

5. Other Issues

5.1 **PWLB Borrowing Rate** – on 9th October 2019 HM Treasury and PWLB announced that it was restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans by 1% on top of usual lending terms.

The government will monitor the impact of the change and keep its rates policy under review.

There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing.

Whereas this council has previously relied on the PWLB as its only source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

5.2 **PWLB Lending Limits** – Alongside the recent announcement on the PWLB rate rise the Treasury announced that it was lifting the cap for cumulative total PWLB liabilities for local authorities from £85bn to £95bn.

Financial Implications

Are covered in the body of this report.

Legal Implications

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the 2003 Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity.
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (no restrictions were made in the first six months of 2019/20 – but see 'Other Issues' above).
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.
- Under the Act MHCLG has issued revised *Guidance on Local Government Investments* to structure and regulate the Council's investment activities, including non-financial assets that the organisation holds primarily or partially to generate a profit. That guidance became available on 1st April 2018.

The Council has complied with all of the above relevant statutory and regulatory requirements that limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

6.0 Corporate Implications

Monitoring Officer commentary

The Monitoring Officer confirms that all relevant legal implications have been taken into account.

S151 Officer commentary

The S151 Officer confirms that all financial implications have been taken into account.

Risk Implications

The Council considers security, liquidity and yield, in that order, when making investment decisions:

<u>Security</u> – counterparty credit quality was assessed and monitored with reference to credit ratings, credit default swaps, gross domestic product (GDP) of the country in which the institution operates (Appendix C), the country's net debt as a percentage of GDP, any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for 2019/20 was A/A3/A (Fitch/Moody's/Standard and Poors).

<u>Liquidity</u> – the Council maintained a sufficient, though not excessive, level of liquidity during the first half-year using various call accounts and short-term, fixed-rate, deposits.

Yield – the Council sought to optimise returns commensurate with its objectives of security and liquidity. Short-term money market rates remained at very low levels throughout the half-year which had a significant impact on investment income.

A high reliance on investment income can place the Council at significant risk of budget variation as interest rates rise and fall, which has an impact upon future Council Tax levels. The Council's Medium Term Financial Plan addresses this risk and seeks to reduce this reliance over time.

Locking significant investments into long-term fixed-rate transactions means the Council has a potential disadvantage in a rising interest market, especially if the interest rate rises above the assumption made when the long-term deal was placed.

To mitigate this, the Council's in-house team predominantly invest up to periods of three months only, hence advantage can be taken of prevailing interest rates upon the investments maturity. This minimises the disadvantage whilst maintaining certainty over the level of future return and stability in planned future Council Tax levels.

Security of capital is cited in the Financial Services Risk Register (FIN 06) and this is mitigated by use of counterparty credit security ratings. The lowering of these ratings increases risk. It is felt that a credit rating of A is acceptable for the Council's risk profile (being 'top six' out of a possible 28 ratings) and represents upper quartile performance (Appendix B refers). Officers will also use supplementary credit information to monitor investment counterparties.

Equalities Implications

There are no equalities implications arising as a direct consequence of this report.

Employment and Resource Implications

None identified in this report.

Sustainability Issues

None identified in this report.

Consultation and Communications

The Council is in regular contact with Link Asset Services, the Council's appointed Treasury Management advisor. Meetings, conversations and training have been held during the first half-year involving Link Asset Services and officers.

Background Papers

Performance management information from Link Asset Services.

CIPFA Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes (2017 edition).

CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2018 edition).

CIPFA Prudential Code for Capital Finance in Local Authorities (2017 edition).

MHCLG Guidance on Local Government Investments (revised 2018).

Treasury Management Annual Strategy Report 2019-20 and Prudential Indicators 2019-20 to 2021-22.

APPENDIX A

2019/20 CAPITAL PRUDENTIAL AND TREASURY INDICATORS

The Indicators demonstrate overall control of capital expenditure and that the level of expenditure is sustainable and affordable. They are required by legislation to be set and approved before the start of the year, monitored during the year and reported on at the year end.

They address:-

1. Plans for capital expenditure – the projected capital expenditure for each of the next three years and the source of funding.

2. Capital Financing Requirement (CFR) – the anticipated need for borrowing where capital cannot be financed by existing resources.

3. Affordability Indicator – the ratio of capital financing costs to the net revenue budget.

4. Comparison of borrowing estimate and capital financing requirement, to confirm that borrowing is intended for capital purposes only.

5. Operational Boundary for external debt – is based on the Council's estimate of most likely - i.e. prudent, but not worst case scenario for external debt.

6. Authorised Limit for external debt – is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

7. Debt to net service expenditure (NSE) ratio – gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local council.

8. Commercial income to NSE ratio – dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.

9. Investment cover ratio – the total net income from property investments, compared to the interest expense.

10. Loan to value ratio – the amount of debt compared to the total asset value.

11. To preserve liquidity, the maximum value of investments for more than one year.

12. To assess interest rate exposure, the upper limit on variable, as opposed to fixed, interest rate investments and debt.

13. The maturity structure of fixed and variable interest rate borrowing, to regulate the Council’s exposure to large repayment requirements.

APPENDIX B

HIERARCHY OF COUNTERPARTY SECURITY RATINGS

Short Term		
Fitch	**Moody's**	**S&P**
F1+	P-1	A-1+
F1		A-1
F2	P-2	A-2
F3	P-3	A-3
B		B
C		C
D		D

Long Term			Description
Fitch	**Moody's**	**S&P**	(AAA = highest, D = lowest)
AAA	Aaa	AAA	Highest security
AA+	Aa1	AA+	
AA	Aa2	AA	
AA-	Aa3	AA-	
A+	A1	A+	
A	A2	A	
A-	A3	A-	
BBB+	Baa1	BBB+	
BBB	Baa2	BBB	
BBB-	Baa3	BBB-	
BB+	Ba1	BB+	
BB	Ba2	BB	
BB-	Ba3	BB-	
B+	B1	B+	
B	B2	B	
B-	B3	B-	
CCC+	Caa1	CCC+	
CCC	Caa2	CCC	
CCC-	Caa3	CCC-	
CC+	Ca	CC+	
CC	Ca	CC	
CC-	Ca	CC-	
C+	C	C+	
C	C	C	
C-	C	C-	
DDD	D	DDD	
DD	D	DD	
D	D	D	Lowest Security

APPENDIX C

Approved countries for investments
(as at 30th September 2019)

This list is based on those countries which have a sovereign ratings of AA- or higher (information supplied by Fitch, Moody's and Standard and Poors).

AAA

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

AA+

- Finland
- USA

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- **UK**

AA-

- Belgium
- Qatar