

Item
**ANNUAL TREASURY MANAGEMENT STRATEGY
STATEMENT REPORT 2019/20 TO 2022/23**



To:

The Executive Councillor for Finance & Resources: Councillor Richard Robertson

Strategy & Resources Scrutiny Committee 11th February 2019

Report by:

Caroline Ryba – Head of Finance & S151 Officer

Tel: 01223 458134 Email: caroline.ryba@cambridge.gov.uk

Wards affected:

All Wards

Key Decision

1. Executive Summary

- 1.1 The Council is required to receive and approve, as a minimum, three main treasury management reports each year, which incorporate a variety of policies, estimates and actuals.
- 1.2 The first and most important is the Treasury Management and Investment Strategy (this report) incorporating prudential and treasury indicators which covers:
- Capital plans (including prudential indicators)
 - A Minimum Revenue Provision policy which explains how unfinanced capital expenditure will be charged to revenue over time;
 - The Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and

- An investment strategy (the parameters on how investments are to be managed)
- 1.3 A mid-year treasury management report is produced to update Members on the progress of the capital position, amending prudential indicators as necessary and advise if any policies require revision.
 - 1.4 The Outturn or Annual Report compares actual performance to the estimates in the Strategy.
 - 1.5 The statutory framework for the prudential system under which local government operates is set out in the Local Government Act 2003 and Capital Financing and Accounting Statutory Instruments. The framework incorporates four statutory codes. These are:
 - The Prudential Code prepared by CIPFA
 - The Treasury Management Code prepared by CIPFA
 - The Statutory Guidance on Local Authority Investments prepared by Ministry of Housing, Communities and Local Government (MHCLG)
 - The Statutory Guidance on Minimum Revenue Provision prepared by MHCLG
 - 1.6 CIPFA have published a revised Prudential Code (2017 edition) with accompanying Guidance Notes for Practitioners (2018 edition) and the Treasury Management Code (2017 edition).
 - 1.7 The MHCLG have also published a revised Investment Guidance and Minimum Revenue Provision Guidance (both commenced on 1st April 2018). This report therefore reflects the new requirements. The most notable change is the requirement to expand the Investment Strategy to non-financial assets such as investments in property.
 - 1.8 The Council's S151 Officer has considered the deliverability, affordability and risk associated with the Council's capital expenditure plans and treasury management activities. The plans are considered to be affordable and where there are risks such as the slippage of capital expenditure or reductions in income or value from investments these have been considered and are considered to be mitigated or at an acceptable level. The Council has access to specialist advice where appropriate.

1.9 Treasury Management Reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Strategy and Resources Committee.

2. Recommendations

The Executive Councillor is asked to recommend to Council:

- 2.1 This report, including the estimated Prudential & Treasury Indicators for 2019/20 to 2022/23, inclusive, as set out in Appendix C;
- 2.2 To increase the Money Market Fund (MMF) limit to £15 million per fund, with no maximum limit overall;
- 2.3 To use Enhanced Money Market Funds (EMMFs) with a credit rating not lower than AAf, as assessed by any one of the credit rating agencies, with an initial counterparty limit of £5m per fund; and;
- 2.4 To increase the Council's Authorised Borrowing Limit (external borrowing) to £300 million.

3. Background

3.1 Treasury Management Activities

- 3.2 The Council is required to comply with the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council is required to set prudential and treasury indicators, including an authorised limit for borrowing, for a three year period and should ensure that its capital plans are affordable, prudent and sustainable. The Council also follows MHCLG Investment Guidance.
- 3.3 The Link Group bought the treasury division of Capita Asset Services and started trading as Link Asset Services in November 2017. All the services that Capita undertook for this Council will now be undertaken by Link Asset Services with no changes to the current level of services provided.
- 3.4 Link's specialist services include the provision of advice to the Council on developments and best practice in this area and provide information

on the creditworthiness of potential counterparties, deposit and borrowing interest rates and the economy.

4. Borrowing Policy Statement

- 4.1 The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1st April 2004.
- 4.2 At present the only debt held by the authority relates to the twenty loans from the PWLB for self-financing the HRA taken out in 2012 totalling £213,572,000.
- 4.3 The Council does anticipate that there may be some external borrowing for the period 2019/20 to 2022/23, inclusive. Hence the recommendation above to increase the Council's external Authorised Borrowing Limit (ABL).
- 4.4 In the event that external borrowing is undertaken the Council is able as an eligible local authority to access funds at the PWLB Certainty Rate (a 0.20% discount on loans) until 31st October 2019.
- 4.5 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.

5. Minimum Revenue Provision (MRP) Policy Statement

- 5.1 Minimum Revenue Provision (MRP) is the revenue charge that the Council is required to make for the repayment of debt, as measured by the underlying need to borrow, rather than actual debt. The underlying debt is needed to finance capital expenditure which has not been fully financed by revenue or capital resources. As capital expenditure is generally expenditure on assets which have a life expectancy of over one year it is prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure.
- 5.2 The Local Authorities (Capital Finance and Accounting) regulations require local authorities to calculate for the financial year an amount of MRP which is considered to be 'prudent'.

- 5.3 There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.
- 5.4 The Housing Revenue Account share of the CFR is not subject to an MRP charge.
- 5.5 There is no requirement to make a MRP charge on an asset until the financial year after that asset becomes operational.
- 5.6 The Government has issued revised guidance (issued in January 2018) on the calculation of MRP. The Council is required to have regard to the guidance based on the underlying principle that the provision should be linked to the life of the assets for which the borrowing is required.
- 5.7 However, the guidance is clear that differing approaches can be considered as long as the resulting provision is prudent.
- 5.8 In general, the council will make a minimum revenue provision based on the equal installment method, amortising expenditure equally over the estimated useful life of the asset for which the borrowing is required. However, no provision will be made in respect of expenditure on specific projects where the Head of Finance determines that capital receipts will be generated by the project to repay the debt. Specifically in respect of the current capital programme:-
- The Council has made a loan to a company (which is classed as capital expenditure) to enable it to let intermediate rent properties. This will be financed from internal borrowing.
 - As this loan is to a wholly owned subsidiary company and is secured on assets no MRP will be set aside. However, to ensure that this policy is prudent, the Council will review this loan annually and if the loan is renegotiated. Where there is evidence which suggests that the full amount of the loan may not be repaid or is not secured on assets of appropriate value, it will be necessary to reassess the need to commence MRP to recover the impaired amounts from revenue.
 - The Council is budgeted to make a capital contribution and loans to the Cambridge Investment Partnership (CIP) – a joint venture and

deadlock partnership in which the Council has a 50% stake - to facilitate the development of new housing on the former Mill Road Depot site within the city. These payments are classed as capital expenditure. As the payments will be appropriately covered by assets in the CIP and as there are detailed plans to demonstrate that all investment in the CIP will be recovered in less than five years with a significant surplus, no MRP will be set aside. However, to ensure that this policy is prudent, the Council will review the position regularly. Where there is evidence which suggests that the finance provided may not be repaid, it will be necessary to reassess the need to commence MRP to recover the impaired amounts from revenue.

- No MRP will be required on bond investments which are treated as capital expenditure under regulation where those bonds are appropriately secured. This security will be reviewed at least annually.

- 5.9 The Council approved a programme of investment in commercial property using powers under S12 of the Local Government Act 2003 in October 2016. This is deemed capital expenditure and will be financed from cash balances. MRP will be provided for using the useful life determinant with regard to maximum lives permitted in the revised MHCLG MRP guidance of 50 years for freehold land and 40 years for all other assets. MRP is made on the purchase of these properties from the date that rental income is earned.
- 5.10 The Council has agreed to finance an element of the capital cost of a new community centre at Clay Farm from internal borrowing. Using the asset life method MRP would normally be made over an asset life of 40 years. However, the element of capital cost being funded from internal borrowing will effectively be repaid over a shorter period from receipts of rental incomes from the tenant and subsidy from the site developer. The current estimate is that this repayment will take approximately 17 years. The Council has decided to make MRP on this accelerated basis in respect of this asset.
- 5.11 The Council has received a capital receipt for K1 amounting to £3m. This will be used to reduce the CFR in 2018/19 alongside £116k of unallocated New Homes Bonus and £8m from the Invest for Income Reserve. This will result in a reduction of MRP charges moving forward.

6. The Council's Capital Expenditure and Financing 2018/19 to 2022/23

6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;
- If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

6.2 Details of capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure and how it will be financed.

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
General Fund Capital Expenditure	43,748	21,989	15,736	2,763	5,583
HRA Capital Expenditure	36,151	51,977	67,059	30,603	22,732
Total Capital Expenditure	79,899	73,966	82,795	33,366	28,315
Resourced by:					
• Capital receipts	-11,090	-9,288	-11,950	-6,062	-3,419
• Other contributions	-71,933	-48,263	-66,030	-36,803	-29,584
Total available resources for financing capital expenditure	-83,023	-57,651	-77,980	-42,865	-33,003
Financed from/ (to) cash balances	-3,124	16,315	4,815	-9,499*	-4,688*

*Includes Cambridge Investment Partnership Repayments

7. The Council's Prudential and Treasury Management Indicators

7.1 The table below shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Capital Financing Requirement & Cumulative External Borrowing	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
General Fund Capital Financing Requirement	22,747	38,679	43,110	33,076	27,736
HRA Capital Financing Requirement	214,321	214,321	214,321	214,321	214,321
Total Capital Financing Requirement	237,068	253,000	257,431	247,397	242,057
Movement in the Capital Financing Requirement	-3,526*	15,932*	4,431*	-10,034*	-5,340*
Estimated External Gross Debt/Borrowing (Including HRA Reform)	213,572	213,572	213,572	213,572	213,572
Authorised Limit for External Debt	300,000	300,000	300,000	300,000	300,000
Operational Boundary for External Debt	242,068	258,000	262,431	252,397	247,057

*Includes Minimum Revenue Provision (MRP) of £(-) 402k in 2018/19, £(-) 383k in 2019/20, £(-) 384k in 2020/21, £(-) 535k in 2021/22 & £(-) 652 in 2022/23.

7.2 During the above financial years the Council will operate within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The anticipated Prudential & Treasury indicators are shown in Appendix C.

8. Investment Strategy

8.1 The Council's overall approach to investment in financial and non-financial assets is outlined in the Capital Strategy presented in a separate report to this Committee.

Financial Asset Counterparties

8.2 The full listing of approved counterparties is presented at Appendix A, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. The recommendations shown on this year's counterparty list is highlighted in bold text.

Financial Asset Performance Indicators

8.3 The Council's investments at 30 November 2018, including the principal invested, yield and credit rating as advised by Link are as follows:-

Counterparty	Link Credit Rating	Principal (£)	Yield
Fixed Term Deposits (Original Term less than one year)			
Blaenau Gwent Council	AA	3,000,000	0.95%
Cherwell District Council	AA	5,000,000	1.05%
Stockport MBC	AA	5,000,000	1.00%
Thurrock Borough Council	AA	5,000,000	0.95% - 0.98%
West Dunbartonshire Council	AA	10,000,000	0.85%
Bank of Scotland Plc (RFB)	A+	20,000,000	0.75%-1.05%
Barclays Bank Plc (NRFB)	A	2,000,915	0.65%
Lloyds Bank Plc (RFB)	A+	20,000,000	1.00%-1.10%
Standard Chartered Bank	A+	2,000,000	0.90%
Fixed Term Deposits (Original Term More than One Year)			
Cambridgeshire County Council	AA	5,000,000	1.30%
Doncaster MBC	AA	5,000,000	0.90%
Liverpool City Council	AA	5,000,000	0.70%
Variable Net Asset Value Funds			

Counterparty	Link Credit Rating	Principal (£)	Yield
CCLA Local Authorities' Property Fund	Unrated	15,000,000	4.26%
ECF - Payden Sterling Reserve Fund	AAA	5,000,000	0.87%
ECF - Royal London Cash Plus Fund	AAA	5,000,000	0.68%
Fixed Term Deposits to Other Organisations (over 1 year)			
Housing Company Loan	Unrated	7,500,000	2.02%
TOTAL		119,500,915	

- 8.4 There is no risk to the capital invested (other than the risk of failure of the financial institution) for fixed term deposits and constant net asset value money market funds. Variable net asset funds are priced and the market value of these funds at 30 November 2018 was £25,439,164.
- 8.5 The Council continually reviews its investment policy and has identified concerns in relation to property holdings within the retail sector. As the Council has a £15m stake in the CCLA Local Authorities' Property Fund, we had a meeting with the CCLA on the 7th December 2018 at which they confirmed that the fund holds a small high quality retail investment portfolio (shops) equating to 3.9% of their total investments.
- 8.6 The Council has made a loan of £7.5 million to Cambridge City Council Housing Company, a wholly owned subsidiary. This loan earns 2.02% and is secured on the properties owned by the company.
- 8.7 The Council also plans to commence making loans to Cambridge Investment Partnership, a joint venture, in 2018/19 as detailed in 5.8.

9. Brexit Update

- 9.1 At the time of writing this report there is still considerable uncertainty around the country's proposed exit from the EU on 29 March 2019, following the cancellation of the parliamentary vote on 11 December 2018. The vote was re-scheduled for 15th January 2019 where the Government lost considerably.
- 9.2 The Council will continue to monitor the situation and to take advice from Treasury Advisors as appropriate.

10. Financial Market Reforms Update

10.1 Money Market Fund (MMF) Reforms & Enhanced MMFs

10.2 The Money Market Fund Regulation came into force on 21st July 2018 which impacts immediately on any new funds created. Existing funds will have to be compliant by no later than 21st January 2019.

10.3 The above Regulation provides investors with a new way of categorising a MMF depending on the level of risk, which could cause fluctuations in their capital values. All the MMFs that the Council uses will be converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) on a month by month basis up to the compliant date of 21st January 2019.

10.4 Because of the above MMF reforms, the Council took a precautionary stance and recommended that counterparty limits be lowered at the mid-year treasury management review due to the uncertainties and implementation. This has now settled and there has been little practical impact. Therefore, the Council is recommending a return to the former limits as laid out within the recommendations at paragraph 2.2.

10.5 Furthermore, the Council is looking at newer Enhanced MMF products, which are achieving returns of over 1 %, some of which are rated AA. The risk of counterparty default between AAA and AA, is negligible, as shown by a study commissioned by Moody's in 2007, at the start of the banking crises. This study, undertaken over a 5 year timescale, confirms this (see table below), and therefore we are recommending that the council adds this class of asset to its investment strategy.

RATING	RISK OF DEFAULT	CUMULATIVE DEFAULT RATE (%)	DIFFERENTIAL (%)
Aaa	Highest rating with lowest risk of default	0.18	-
Aa2	Next highest	0.28	0.10
Baa2	Next highest	2.11	1.83
Ba2	Next highest	8.82	6.71
B2	Lowest	31.24	22.42

Source:- Special Comment: Moody's Investor Service, June2007 Report

11. Interest Rates & Interest Received

- 11.1 Link Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of interest rates on treasury management issues for the Council. Link's opinion on interest rates is presented at Appendix B.
- 11.2 Total interest and dividends of £917,585 has been received on the Council's deposits up to 30th November 2018 (for this financial year) at an average rate of 1.30% (1.06% in 2017/18). This is an under-achievement compared with the budget to date of £108,655.
- 11.3 The Bank of England's Monetary Policy Committee decided to increase its Base Rate by 0.25% to 0.75%, on 2nd August 2018. This is reflected within Link's interest rate predictions at Appendix B.

12. Implications

(a) Financial Implications

The prudential and treasury indicators have been amended to take account of known financial activities.

(b) Staffing Implications

None.

(c) Equality and Poverty Implications

No negative impacts identified.

(d) Environmental Implications

None.

(e) Procurement Implications

None.

(f) Community Safety Implications

No community safety implications.

13. Consultation and communication considerations

- 13.1 None required.

14. Background papers

No background papers were used in the preparation of this report.

15. Appendices

- 15.1 Appendix A – The Council's current Counterparty list
- Appendix B – Link's opinion on UK Forecast Interest Rates
- Appendix C – Prudential and Treasury Management Indicators
- Appendix D – Glossary of Terms and Abbreviations

16. Inspection of papers

- 16.1 To inspect the background papers or if you have a query on the report please contact:

Author's Name:	Stephen Bevis
Author's Title:	Accountant (VAT & Treasury)
Author's Phone Number:	01223 458153
Author's Email:	Stephen.bevis@cambridge.gov.uk

Treasury Management Annual Investment Strategy

Current Counterparty List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits (*references have now been made to RFB & NRFB for UK Banks, with explanations within the Glossary at Appendix D). **Recommendations shown in bold text:-**

Name	Council's Current Deposit Period	Category	Limit (£)
Specified Investments:-			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc – NRFB*	Using Link's Credit Criteria	UK Bank	35m
HSBC Bank Plc – NRFB*	Using Link's Credit Criteria	UK Bank	20m
HSBC UK Bank Plc – RFB*	Using Link's Credit Criteria	UK Bank	20m
Standard Chartered Bank	Using Link's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS) – RFB*	Using Link's Credit Criteria	UK Bank	20m
Lloyds Bank Plc – RFB*	Using Link's Credit Criteria	UK Bank	20m

Name	Council's Current Deposit Period	Category	Limit (£)
National Westminster Bank Plc (NWB) – RFB*	Using Link's Credit Criteria	UK Nationalised Bank	20m
Santander UK Plc	Using Link's Credit Criteria	UK Bank	5m
The Royal Bank of Scotland Plc (RBS) – RFB*	Using Link's Credit Criteria	UK Nationalised Bank	20m
Other UK Banks	Using Link's Credit Criteria	UK Banks	20m
Members of a Banking Group (BoS Group includes Lloyds, RBS Group includes NWB)	Using Link's Credit Criteria	UK Banks and UK Nationalised Banks	30m
Svenska Handelsbanken UK	Using Link's Credit Criteria	UK Bank	5m
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 3 months and up to 1 year	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) - VNAV	Over 3 months and up to 1 year	Financial Instrument	5m (per fund)
Money Market Funds (AAAf) – CNAV, VNAV & LVNAV	Liquid Rolling Balance	Financial Instrument	15m (per fund) With no maximum limit overall

Name	Council's Current Deposit Period	Category	Limit (£)
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
Name	Council's Current Deposit Period	Asset Value (£'m) – as at 16th November 2018	Limit (£)
Other Specified Investments - UK Building Societies:-			
Nationwide Building Society	1 month or in line with Link's Credit Criteria, if longer	227,303	Assets greater than £100,000m - £20m
Yorkshire Building Society		49,063	
Coventry Building Society		41,910	Assets between £50,000m and £99,999m - £5m
Skipton Building Society		19,567	
Leeds Building Society		18,937	Assets between £5,000m and £49,999m - £2m
Principality Building Society		9,060	
West Bromwich Building Society		5,794	

Name	Council's Current Deposit Period	Category	Limit (£)
Non-Specified Investments:-			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 35m (in total)
Cambridge City Council Housing Working Capital Loan Facility	Up to 1 year	Loan	200,000
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 15m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Commercial Property Investments funded from cash balances	Over 1 year	Commercial Property	20m (in total)
Enhanced Cash Funds (Standard & Poor's: AAf/S1, Fitch: AA/S1)	Over 1 year and up to 5 years	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) - VNAV	Over 1 year and up to 5 years	Financial Instrument	5m (per fund)

Name	Council's Current Deposit Period	Category	Limit (£)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000
Secured Local Bond in Local Businesses – Using Allia Limited	N/A	Local Business Bond	Up to £5m in total
Supranational Bonds – AAA	Using Link's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

Note: In addition to the limits above, the total non-specified items over 1 year, will not exceed £50m

Link’s Opinion on Forecast UK Interest Rates – As Currently Predicted

Introduction

The paragraphs that follow reflect the views of the Council’s Treasury Management advisors (Link) on UK Interest Rates as currently predicted.

Interest rates

Members of the Bank of England Monetary Policy Committee (MPC) increased the bank rate by 0.25% to 0.75% and no change to current Quantitative Easing (QE) value of £435bn, on 2nd August 2018. The vote was 9-0 in favour of an increase to the bank rate. Going-forward, the Council’s treasury advisor, Link (formerly Capita), has provided the following interest rate forecasts issued on 7th August 2018:-

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%
25yr PWLB rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

* Link Asset Services predict that the next Bank of England Rate Change will be in September 2019, with a rise of 0.25% to 1.00%.

Appendix C

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Estimate 2018/19 £'000	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
PRUDENTIAL INDICATORS					
Capital expenditure					
- General Fund	43,748	21,989	15,736	2,763	5,583
- HRA	36,151	51,977	67,059	30,603	22,732
Total	79,899	73,966	82,795	33,366	28,315
Capital Financing Requirement (CFR) as at 31 March					
- General Fund	22,747	38,679	43,110	33,076	27,736
- HRA	214,321	214,321	214,321	214,321	214,321
Total	237,068	253,000	257,431	247,397	242,057
Change in the CFR	-3,526	15,932	4,431	-10,034	-5,340
Deposits at 31 March	106,000	75,500	77,000	96,200	126,100
External Gross Debt	213,572	213,572	213,572	213,572	213,572
Ratio of financing costs to net revenue stream					
-General Fund	-610	-597	-628	-742	-1,042
-HRA	6,706	6,693	6,824	6,938	6,938
Total	6,096	6,096	6,196	6,196	5,896
% of net revenue expenditure					
-General Fund	-2.59%	-3.08%	-3.09%	-3.57%	-5.39%
-HRA	16.13%	16.05%	15.97%	15.53%	14.79%
Total (%)	13.54%	12.97%	12.88%	11.96%	9.40%

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Estimate 2018/19 £'000	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
TREASURY INDICATORS					
Authorised limit					
for borrowing	300,000	300,000	300,000	300,000	300,000
for other long term liabilities	0	0	0	0	0
Total	300,000	300,000	300,000	300,000	300,000
Operational boundary					
for borrowing	242,068	258,000	262,431	252,397	247,057
for other long term liabilities	0	0	0	0	0
Total	242,068	258,000	262,431	252,397	247,057
Upper limit for total principal sums deposited for over 364 days	50,000	50,000	50,000	50,000	50,000
Upper limit for fixed & variable interest rate exposure					
Net interest on fixed rate borrowing/deposits	6,094	6,094	6,194	6,194	5,894
Net interest on variable rate borrowing/deposits	-15	-15	-15	-15	-15
Maturity structure of new fixed rate borrowing		Upper Limit	Lower Limit		
10 years and above (PWLB borrowing for HRA Reform)		100%	100%		

Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
MHCLG	Ministry for Housing, Communities & Local Government (formerly the Department for Communities & Local Government, DCLG)
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases

Term	Definition
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered Rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Low Volatility Net Asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
Non Ring Fenced Bank (NRFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks for the 1 st January 2019 deadline
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates

Term	Definition
Quantitative Easing (QE)	A financial mechanism whereby the Central Bank creates money to buy bonds from financial institutions, which reduces interest rates, leaving businesses and individuals to borrow more. This is intended to lead to an increase in spending, creating more jobs and boosting the economy
Ring Fenced Bank (RFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks for the 1 st January 2019 deadline
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
Variable Net Asset Value (VNAV)	MMFs values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment