For General Release

REPORT TO:	**Cabinet 25 February 2019**
SUBJECT:	**Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement, Capital Strategy & Annual Investment Strategy 2019/2020**
LEAD OFFICER:	**Lisa Taylor** **Director of Finance, Investment and Risk (S151 Officer)**
CABINET MEMBER:	**Cllr Simon Hall,** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

The prime function of the treasury management operation is to ensure that cash flow is adequately managed, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, so that providing adequate liquidity is prioritised over investment return.

The second main function of the treasury management service is the financing 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 that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensures liquidity or the ability to meet spending commitments as they fall due, either as day-to-day revenue spend or for larger capital projects. The treasury operations carefully assess the balance of the interest costs of debt and the investment income arising from cash deposits and this will impact directly on the Council's finances. 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 Sheet.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (and are treated as capital expenditure); they are separate and distinct from the day to day treasury management activities.

Revised reporting on Treasury Management is required for the 2019/2020 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. The more significant reporting changes for this 2019/2020 reporting cycle include: the introduction of the requirement to draft and adopt 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. The Capital Strategy Statement is included with this report and provides context to the reported activities.

FINANCIAL IMPACT:

This report sets out the Council's Treasury Management objectives, which are to manage the Council's cash flows, borrowing and investments whilst minimising the level of risk exposure; maximising investment yield returns within those risk parameters; and ensuring that capital expenditure and financing plans are prudent, affordable and sustainable. The report details the activities that will be undertaken by the Council in the financial year 2019/2020 and the capital borrowing needs of the Council for 2019/2020:-

		£m	Total £m
1.	**In Year Borrowing Requirement (Net)**	317.793	317.793
2.	**Total Interest Payable on Debt**		
	- chargeable to Housing Revenue Account (HRA)	12	
	- chargeable to General Fund (GF)	25	
			37

In addition the report details the investment activities and the estimated level of income earned. **Investment Income** net of interest apportioned to Non-General Fund accounts e.g. HRA and other cash balances:- (0.6m)

(0.6m)

KEY DECISION REFERENCE NO.:

This is not an executive key decision – this is reserved to the full Council for decision as part of the budget and policy framework.

1. RECOMMENDATIONS

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below.

The Cabinet is asked to recommend to Full Council that it approve:

1.1. The Treasury Management Policy Statement 2019/2020 as set out in this report including the recommendations:

1.1.1. That the Council takes up the balance of its 2018/2019 borrowing requirement and future years' borrowing requirements, as set out in paragraph 4.5.

1.1.2. That for the reasons detailed in paragraph 4.14, opportunities for debt rescheduling are reviewed throughout the year by the Director of Finance, Investment and Risk (S151 Officer) and that, she be given delegated authority, in consultation with the Cabinet Member for Finance and Resources and in conjunction with the Council's independent treasury advisers, to undertake such rescheduling only if revenue savings or additional cost avoidance can be achieved at minimal risk in line with organisational considerations and with regard to the Housing Revenue Account (HRA) as set out in the Council's Medium Term Financial Strategy 2018/2022.

1.1.3. That delegated authority be given to the Director of Finance, Investment and Risk (S151 Officer) in consultation with the Cabinet Member for Finance and Resources, to make any necessary decisions to protect the Council's financial position in light of market changes or investment risk exposure.

1.1.4. That the Council adopts the 2017 edition of the revised Treasury Management Code of Practice and Prudential Code issued by CIPFA in December 2017.

1.2. That the Council adopts the Annual Investment Strategy as set out in paragraph 4.16 and 4.17 of this report.

1.3. That the Authorised Borrowing Limits (required by Section 3 of the Local Government Act 2003) as set out in paragraph 4.18 and as detailed in **Appendix C** be as follows:

2019/2020	**2020/2021**	**2021/2022**
£1,486.05m	**£1,550.30m**	**£1,615.40m**

1.4. That the Council approve the Prudential Indicators as set out in **Appendix C** of this report.

1.5. The Annual Minimum Revenue Provision Policy Statement (required by the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008SI 2008/414) as set out in **Appendix D** of this report.

1.6. That the Council's authorised counterparty lending list as at 31 December 2018 as set out in **Appendix E** of this report and the rating criteria set for inclusion onto this list be approved.

1.7. That the Council adopts the Capital Strategy Statement set out below in section 3.

2. EXECUTIVE SUMMARY

2.1. Under regulations made pursuant to the Local Government Act 2003 the Council is required to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities, 2017, ("The Code"), to ensure that the Council's capital investment plans are affordable, prudent and sustainable. In particular, the Prudential Code requires the Council to set a number of Prudential Indicators for the next three financial years. This report, which both incorporates these indicators, and recommends that Cabinet recommends to full Council the adoption of the latest Code, also details the expected treasury activities for the year 2019/2020, set in the context of the longer term planning forecasts for the organisation. The implications of these key indicators function as the overriding control and guidance mechanism for the future capital programme and the revenue consequences that arise for the Council in future financial years.

2.2. The revised CIPFA 2017 Prudential and Treasury Management Codes require, for 2019/2020, that all local authorities must prepare an additional report, a Capital Strategy Statement, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

3. CAPITAL STRATEGY STATEMENT

The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

Purpose and Aims of this Capital Strategy

3.1 This capital strategy document sets out how capital investment supports the delivery of the authority's objectives. It describes the main objectives for the Council over a four-year horizon (2018 to 2022). These objectives form the Council's Corporate Plan and have been grouped into 9 themes, as follows:

People live long, healthy, happy and independent lives – infrastructure to support those in need and to prevent issues from becoming problems. Includes high quality health and care provision;
Our children and young people thrive and reach their full potential – sharing resources, expertise and intelligence to better safeguard children and to improve their outcomes;
Good, decent homes, affordable to all – equal and fair access to housing, providing support in accordance with need;
Everyone feels safer in their street, neighbourhood and home – to ensure that people from all Croydon communities feel safe;
A cleaner and more sustainable environment – clean, accessible streets are important to the wellbeing and success of the local economy;
Everybody has the opportunity to work and build their career – inward investment brings opportunities for residents of the Borough;
Business moves here and invests, our existing businesses grow – an expanding technology sector and a large number of start-up businesses should benefit all residents;
An excellent transport network that is safe, reliable and accessible to all – to invest further in the road, rail and tram networks, with an emphasis on better, sustainable transport;
We value the arts, culture, sports and activities. – This is integral to a healthy, vibrant borough and are important drivers for the economy.

Delivery of these Objectives

3.2 This Capital Strategy has been drafted to support the delivery of the Council's core objectives that sit within each of these nine themes.

3.3 The Council employs a number of different delivery strategies and these are described below. This document describes the funding streams available to the Council and used in the delivery of these objectives.

3.4 The component elements that comprise the capital programme are drawn from specific, detailed strategy documents, including, but not limited to the Asset Investment Strategy, the Education Estates Strategy and Brick by Brick's Business Plan.

3.5 These are described in some more detail below, including a description of the process whereby schemes are prioritised to ensure best fit to these corporate priorities as capital projects. Taken together these schemes make up the Council's capital investment programme.

3.6 The next section considers the resources available to the Council to deliver this capital programme.

Resources

3.7 The Council can call upon a range of capital resources to deliver its capital programme.

These resources include:

Borrowing;
Capital Receipts;
Grant funding;
Planning obligations; and
Revenue.

There are also resources relating to the Housing Revenue Account which fall outside the scope of this strategy.

3.7.1 **Borrowing**. The level of debt incurred by the Council is governed by the indicators set by the CIPFA Prudential Code. The Code provides a framework to enable the Council to assess the Affordability, Sustainability and Prudence of the level of borrowing. These links to the Prudential Code are detailed further below. Sources of debt include the Public Works Loans Board, Commercial debt from banks and financial institutions, (this includes legacy so-called Lender Option Borrower Option loans, or LOBOs), and European Union funds, such as the London Energy Efficiency Fund and the European Investment Bank. Local authorities are able to borrow money at rates that are very close to the government cost of borrowing and for durations that stretch out to fifty years.

The Council's Medium Term Financial Strategy (MTFS) states that Borrowing should be undertaken for specific schemes and is prioritised where it can have a net positive impact on the revenue budget and there is a clear repayment plan for the principal sum. Borrowing can be split into four elements:

1. Borrowing – Revolving Investment Fund – normally for housing and on lent at a commercial rate where debt is repaid on completion of the project.
2. Borrowing – Growth zone – debt is repaid from future business rates growth.

3. Borrowing – Asset Investment strategy – Borrowing decisions made in line with the agreed strategy and where the asset generates a positive net return. Debt would be repaid in future from asset value.
4. Borrowing – General – Any other priority capital schemes that cannot be funded from external sources.

Allowance needs to be made in the revenue budget for repayment of capital and payment of interest. The policy regarding the repayment of principal sums (Minimum Revenue Provision) is discussed below in section 4.6.

3.7.2 **Capital Receipts** are generated by the sale of an asset. Disposals of surplus assets in the property portfolio, typically generated by a rationalising of the estate, represent an important source of funding. Capital receipts can only be applied to fund capital investment, with the exception of the use of capital receipts to fund transformation expenditure, set out in the MHCLG's Flexible Use of Capital Receipts guidance of March 2016.

As set out in the Council's MTFS capital receipts will be used to fund transformation programmes and projects that support the assumptions made in the MTFS, this includes the transformational activities in the Children's Services Improvement Plan.

3.7.3 **Grant funding** covers a range of funding sources. This might include grants from the Education and Skills Funding Agency; Education Basic Needs grants; Transport for London, NHS, and the Community Infrastructure Levy. Typically grants are specific and often have conditions associated with them which define the purpose for which they should be applied.

3.7.4 **Planning obligations**, Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as s106 agreements, are a mechanism which make a development proposal acceptable in planning terms, that would not otherwise be acceptable. Typically they are negotiated as part of planning gain agreements. They are focused on site specific mitigation of the impact of development. S106 agreements are often referred to as 'developer contributions' along with highway contributions and the Community Infrastructure Levy, as mentioned above. They were introduced to allow local authorities to recover costs associated with private developments. These range from additional school places through to transport links.

3.7.5 **Revenue funding** can be applied but is rarely used to support capital investment.

3.8 Croydon has been innovative in using different approaches for delivering capital investment. These are described in more detail here.

The Revolving Investment Fund (RIF)

3.8.1 The RIF will, over the life of this strategy, comprise £272.2 million and will be established through borrowing. Loans will be acquired at rates comparable to the mark up on gilts applied by the government's Debt Management Office. The RIF will lend at commercial rates thus generating a margin. The net returns estimated over the cost of debt will be credited to the Council's revenue accounts and the interest earned by the Council is used to run services. The debts will be repaid on completion of each individual project.

The RIF also acts as a funder to the Council's Housing Development Company Brick by Brick, enabling the development of homes in the Borough.

Brick by Brick

3.8.2 The Borough has established a development company, Brick by Brick Croydon Limited (BXB), to bring forward housing led development in a way which realises the development potential of a sites throughout the borough and maximises the benefit from development to local residents. Although the Council is the sole shareholder, the board of the company operates independently from the Council and on a commercial basis.

As specified above, Brick by Brick is funded by a revolving investment fund funded by debt incurred by the local authority.

The key implication for the Council from the lending arrangement to Brick by Brick is the estimated net funding requirement is driven by the company's cash flow projections. Brick by Brick will draw down from the Council through a combination of borrowing and equity investment (on a 75:25 split) to fund its planned development programme.

Housing LLPs

3.8.3 The Council has also set up Housing LLPs to increase the provision of affordable homes in the borough. To enable the increase of the provision of affordable housing in the borough, the Council, via wholly owned entities, has entered in to three separate limited liability partnerships (LLPs) with a local charity to develop units across the borough and street purchased properties as affordable rented homes. The LLPs will be able to utilise the Council's retained right to buy receipts, which the Council is unable to use due to the limited resources in the housing revenue account, with the Council acting as lender for the balance of the funds for the purchase of the leases and development of the sites. If the Council did not use the right to buy receipts in this manner, it would obliged to repay them to central government with interest.

Croydon will retain a long term interest in the properties via the freehold of the sites or properties and receive an income stream in to the general fund from each LLP. The impact on the Council's general fund, once all properties are fully available, is an ongoing benefit of £1.4 million. Additionally, there will be capital gains on the previously purchased units and, through arms lengths agreements with the LLPs, a contribution to the Council's fixed costs.

Growth Zone

3.8.4 The Growth Zone is a big element of the capital programme. The driver for this component of the strategy is that future business rates increases received from the zone are ring fenced outside of this strategy for investment within the zone. The growth in business rates from the growth zone is ring-fenced separately from within the Council's collection fund, and will be used to repay debt.

The Growth Zone strategy is entitled to bid to access Public Works Loan Board Infrastructure rate borrowing at preferential rates.

Service and Commercial Investment Strategy

3.9 An asset Acquisition Fund of £100m will enable investment in property to generate an income for the Council. The Council has an aspiration to secure medium to long term revenue returns from sound property investment principally within the Borough. The revenue returns from these investments should be consistent and less prone to fluctuation due to the protection within the lease agreements. These returns will be key to future revenue income and enable expenditure on services. The Council will be looking at the opportunity that property investment offers to help generate a secure revenue stream over the medium - to long-term. However, less secure assets that offer future revenue potential with higher returns that also unlock the development of strategic sites will also be considered. These may typically be part vacant properties in district centres that requiring some degree of refurbishment or additional development to secure their full letting potential. Each opportunity will be assessed against a matrix. The matrix will have scoring against each of the key elements and categorise into Excellent, Fair, Good and Marginal investments.

Context – the Strategy Hierarchy

3.10 The Capital programme comprises the capital schemes that contribute towards meeting the objectives described above. They are described by the Asset Investment Strategy, Education Estates Strategy, the Brick by Brick business plan and other strategies and plans. A capital budget, setting out the forecast expenditure and capital funding, is Item 3A on this agenda.

3.11 The revenue impact of long-term borrowing is set out in the Minimum Revenue Provision (MRP) Policy (attached as Appendix D and covered in section 4.6) and the Treasury Management Policy (discussed in paragraphs 4.7 to 4.15 inclusive). These policies can be found below.

3.12 The MRP deals with different categories of assets in different ways, setting out how debt principal is repaid from contributions from revenue. The Treasury Management Policy considers, amongst a number of issues, projections as to the cost of debt and issues around long-term affordability and sustainability.

3.13 Sitting alongside and informing this Strategy is the **Medium Term Financial Strategy ("MTFS")**. This was approved by Full Council in October 2018.

3.14 By way of local context, there are a number of significant externally delivered, private sector projects being delivered across the Borough, including 101, George Street, comprising 300 new residential properties; Pocket Living, a 21-storey building, comprising 112 one-bedroom pocket homes at Addiscombe Grove; the Queen's Square development; and the £1.4billion regeneration of the Whitgift Centre.

3.15 Capital projects are assessed and prioritised according to their fit within the strategic context described above. The Council will invest in programmes and projects in line with statutory and core functions with priority for funding being given to those schemes along with invest to save projects. The return on investment to prioritise schemes. The MTFS assumes continuing maximum use of planning gain from the Community Infrastructure Levy and S106 Planning Obligations where possible to reduce our borrowing requirements. As detailed above, an asset Acquisition Fund of £100m has been established to enable investment in property to generate an income for the Council. Capital receipts will continue to be used to fund the transformation programme given the shortage of earmarked reserves. As described, the Growth Zone is a big element of this capital programme. The principle assumed in this strategy is that future business rates received from the zone are ring fenced outside of this strategy for investment within the zone.

Risk Appetite and Governance processes for managing that risk

3.16 The MTFS is explicit in setting out the Council's appetite for risk. In summary, the Council recognises that good financial management is key to delivering effective services and maintaining financial sustainability and control and needs to be embedded in everything it does. Demand for services is increasing and that requires that they we need to be delivered in a different way if they are to be effective and affordable. The MTFS sets out the key strategic priorities for how the Council will manage the medium term budget position. It is important to make well informed decisions on the basis of accurate financial and operational information. It is also important to recognise that the Council will need to take considered risks to deliver its objectives.

Capacity to deliver

3.17 As described above in the section on context, there is a great deal of activity, current and planned, in the Borough. Capacity, in terms of internal officer resources, must be a consideration. Equally, capacity, in terms of skills, businesses, trades, plant, machinery and so forth is in demand.

Indicators

3.18 Good practice suggests that the Council reviews this document annually to ensure it continues to reflect the needs and priorities of residents.

Prudential Indicators are set at the same time as the budget and reviewed mid-year and at the year-end. These indicators are set out in Appendix C.

3.19 Capital Expenditure is monitored on a quarterly basis and reported to the Cabinet. The Cabinet report considers spend to date, forecasts for the year and subsequent periods and any adjustments required to the agreed budget. This robust level of scrutiny ensures the most efficient use of capital resources to support corporate objectives.

4. TREASURY MANAGEMENT STRATEGY FOR 2019/2020

4.1. The Council defines its treasury management activities as:

"The management of the Council'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."

4.2. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, and estimated and actual figures.

1. **The Prudential and treasury indicators and treasury strategy (this report)** - The first, and most important report covers:

   - the capital plans (including prudential indicators);
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy (how the investments and borrowings are to be arranged) including treasury indicators; and
   - an investment strategy (the parameters for managing investments.

2. **A mid-year treasury management report** – To update members with the progress of the capital position, amend prudential indicators as necessary, and flag whether any policies require revision;

3. **An annual treasury report** – This is a backward looking review document and

provides details of the prudential and treasury indicators and treasury operations. The indicators are calculated on the basis of published outturn figures compared to the estimates within the strategy.

4.3. The strategy for 2019/2020 covers these three main areas:

Capital issues
- The capital plans and borrowing need (paragraphs 4.4 and 4.5);
- The minimum revenue provision (MRP) policy (paragraph 4.6).

Treasury management issues
- Policy on use of external service providers paragraph 4.7);
- The Current Treasury Position (paragraph 4.8);
- Borrowing Requirement (paragraph 4.9);
- Treasury indicators which limit the treasury risk and activities of the Council (paragraph 4.10);
- Interest Rate Exposure and Prospects for Interest Rates (paragraph 4.11) ;
- The Borrowing Strategy (paragraph 4.12);
- The policy on borrowing in advance of need (paragraph 4.13);
- Debt Rescheduling and Repayment (paragraph 4.14);
- Sources of Finance (paragraph 4.15);

Annual Investment Strategy
- The investment policy (paragraph 4.16);
- The Annual Investment Strategy (paragraph 4.17);
- Treasury Limits (paragraph 4.18) and
- Prudential Indicators (paragraph 4.19).

CAPITAL ISSUES

4.4. **Capital Expenditure and borrowing need**

4.4.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

4.4.2 In order to fulfil its ambitions for Croydon the Council has an extensive capital programme. This includes funding for:

- a Revolving Investment Fund (RIF), set up to fulfil the Council's Growth Promise and initially be focused on the delivery of development and regeneration on Council Land;
- a Development company focused on regeneration in the borough, primarily in respect of residential properties;
- and a Growth Zone, which invests in priority infrastructure to help deliver sustainable economic growth in Croydon.

During the year 2018/2019 an Asset Acquisition Fund was also set up to enable investment in commercial property in order to generate a return to help fund services. The RIF, Growth Zone, Asset Acquisition Fund and Development Company are expected to create their own revenue streams in order to repay the debt taken out to finance the expenditure. The expenditure for these areas is shown in the Commercial activities and non-financial investments line in Table 1.

4.4.3 Members are asked to note the capital expenditure forecasts summarised in the table below:

Table 1: Capital Expenditure Forecasts (2018/2022)

Capital expenditure £m	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate	2021/2022 Estimate
Non-HRA	99.157	93.201	55.818	27.497
Commercial activities/non-financial investments	242.834	90.273	40.000	60.000
HRA	31.325	38.451	26.951	26.951
Total	**373.316**	**221.925**	**122.769**	**114.448**

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

4.4.5 The Council's financing need is funded from various capital and revenue resources plus borrowing.

4.5. The Council's borrowing need (the Capital Financing Requirement)

4.5.1 The Council's Capital Financing Requirement (CFR) is the total of historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the borrowing need in line with each asset's life. The CFR includes any other long term liabilities such as PFI schemes and 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 to deliver these schemes.

4.5.2 The Council's estimated CFR is detailed in the table below:

Table 2: Estimated Capital Financing Requirement 2018/2022

	2018/2019 £m	2019/2020 £m	2020/2021 £m	2021/2022 £m
	Forecast	**Estimate**	**Estimate**	**Estimate**
Capital expenditure	373.316	221.925	122.769	114.448
Less amount funded from resources	(48.923)	(82.706)	(48.820)	(39.351)
Gross In Year Borrowing Requirement (CFR)	**324.393**	**139.219**	**73.949**	**75.097**
Less In Year Minimum Revenue Provision (MRP) for debt repayment.	(6.6)	(8.2)	(9.7)	(10.0)
In Year Borrowing Requirement (Net)	317.793	131.019	64.249	65.097
1. Loans repaid during year	132.000	179.000	42.000	40.000
2. Less loans taken up in-year	(434.000)	0.0	0.0	0.0
3. Less reduction in investment balances (internal borrowing)	(0.0)	0.0	0.0	0.0
In Year Borrowing Requirement outstanding	**15.793**	**310.019**	**106.249**	**105.097**

4.6. Minimum Revenue Provision

4.6.1 Minimum Revenue Provision (MRP), which is often referred to as a provision for the repayment of debt, is a charge to revenue in relation to capital expenditure financed from borrowing or through credit arrangements.

4.6.2 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is ‘prudent’. In calculating a prudent provision, local authorities are required to have regard to the statutory guidance issued by The Ministry of Housing, Communities & Local Government. The latest version of the guidance was issued on 2 February 2018 and is applicable for accounting periods starting on or after 1 April 2019.

4.6.3 The guidance states that before the start of each financial year, the Council should prepare a statement of its policy on making MRP in respect of that financial year and submit it to full Council for approval.

4.6.4 Regulation 28 of the 2003 Regulations requires a local authority to calculate in each financial year an amount of MRP that it considers to be prudent. An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR (Capital Funding Requirement). In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

4.6.5 The Director of Finance, Investment and Risk (S151 Officer) is responsible for ensuring that accounting policies and the MRP policy comply with the statutory Guidance in determining a prudent level of MRP.

4.6.6 The Treasury Annual Review for 2017/2018 was presented to the Council's General Purposes and Audit Committee on 10 October 2018 (Minute 24/17). At the meeting the Committee resolved that a revised Minimum Revenue Provision Statement be recommended for adoption at the next Council meeting to be held on 3 December 2018. The revised MRP Policy Statement for 2018/2019 was adopted by full Council on 3 December 2018 (Minute 47/18) and is attached at Appendix D.

TREASURY MANAGEMENT ISSUES

4.7. **Treasury management Advisors**

4.7.1 The Council uses Link Asset Services, as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review, reflecting sound governance practices.

4.7.2 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The Council appoints specialist advisers for commercial investments.

4.8. **The Current Treasury Position**

4.8.1 The Council's Treasury position as at 31st December 2018 comprised:

Table 3: Borrowing by the Council as at 31 December 2018

		Principal £m	Average Rate %
Fixed Rate Funding	- PWLB[1]	817.926	3.46
	- Other [2]	0.315	3.50
	- LOBO [3]	19.500	2.55
	- Local Authorities[4]	236.000	1.03
	- Amber Green LEEF 2LLP	8.575	1.68
	- European Investment Bank	102.000	2.20
Variable Rate Funding	- LOBO [3]	20.000	4.20
Total External Debt as 31/12/2018		**1,204.316**	**3.14**
Additional			
GF borrowing requirement outstanding for 2018/2019		15.793	
HRA borrowing requirement outstanding for 2018/2019		0	
Estimated Debt as at 31/03/2019		**1,220.109**	**3.14**

1. PWLB is the Public Works Loan Board, the branch of Government that is the principle lender to local authorities. Included within this amount is the £223.1m borrowed for the HRA self-financing settlement made on 28/3/2012.

2. Other relates to 3 ½% Irredeemable Stock which was issued by this Authority in the past.

3. Lender's Option Borrower's Option (LOBOs) loans are commercial debts with options for the lender to vary the rate at pre-set intervals. If the option is exercised, then the Council can either accept the new rate or repay the loan with no penalty.

4. As an alternative to borrowing from the Government, local authorities have come to the market offering loans at competitive rates.

4.8.2 The Council's debt maturity profile is included in **Appendix A**.

Table 4: Temporary Investments as at 31 December 2018

	Principal £m	Average Rate %
Temporary investments outstanding as at 31/12/2018	**66.8**	**0.79**
Estimated temporary investments outstanding as at 31/03/2019	**40**	**0.85**

4.9 The Borrowing Strategy and Borrowing Requirement

4.9.1 The Council's capital expenditure plans are set out in Section 4.4 and referenced by the Capital Strategy Statement. The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, as issued by CIPFA and the MHCLG, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.9.2 The Council's treasury portfolio position at 31 March 2018, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 5: Borrowing and the Capital Financing Requirement 2017 to 2022

£m	2017/2018 Actual	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate	2021/2022 Estimate
External Debt					
Debt at 1 April	881.061	902.060	1,220.110	1,351.129	1,415.378
Expected change in debt	20.999	318.050	131.019	64.249	65.097
Other long term liabilities	86.881	84.920	84.920	84.920	84.920
Expected change in Other long term liabilities	(1.961)	-	-	-	-
Actual gross debt at 31 March	986.980	1,305.030	1,436.049	1,500.298	1,565.395
The Capital Financing Requirement	**1,016.539***	**1,334.332**	**1,465.351**	**1,529.600**	**1,594.697**
Under/(over) borrowing	29.559	29.302	29.302	29.302	29.303

*For 2017/2018, an adjustment has been made to the CFR figure from that reported in the 2017/2018 Annual Report and Accounts to take into consideration loans and investments made as part of the Capital Programme.

Note: this calculation does not allow for the impact of internal borrowing which has the effect of reducing real borrowing (see Table 2, above).

4.9.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/2019 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.

4.9.4 The Director of Finance, Investment and Risk (S151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

4.10 Treasury Indicators: limits to borrowing activity

This section considers the operational boundary and the authorised limit for external debt which together form an important control metric.

4.10.1 **The operational boundary**. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Table 6: The operational boundary for 2018 / 2022

Operational boundary £m	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate	2021/2022 Estimate
Debt	1,220.110	1,351.129	1,415.378	1480.475
Other long term liabilities	84.920	84.920	84.920	84.920
Total	1,305.030	1,436.049	1,500.298	1,565.395

4.10.2 **The authorised limit for external debt.** Another 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 could be afforded in the short term, but is not sustainable in the longer term.

4.10.3 The Council is asked to approve the following authorised limit:

Table 7: The Authorised Limit for External Debt 2018 / 2022

Authorised Limit £m	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate	2021/2022 Estimate
Debt	1,270.110	1,401.129	1,465.378	1,530.475
Other long term liabilities	84.920	84.920	84.920	84.920
Total	1,355.030	1,486.049	1,550.298	1,615.395

4.11 Interest Rate Exposure and Prospects for Interest Rates

4.11.1 The Council manages its exposure to interest rate risk by borrowing the majority of its funding requirements at fixed rates over a range of durations. This limits the impact on the Council's ability to cover interest costs when interest rates are rising. The Council is also looking into securing borrowing using forward agreements to limit exposure to future increases in interest over the short term. The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their and our central view.

Table 8: Interest Rate Forecast December 2018 to March 2022

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

4.11.2 Commentary on interest rate forecasts and the economy has been provided by Link Asset Services in **Appendix G**.

4.12 The Borrowing strategy

4.12.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with borrowing as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent when investment returns are low but counterparty risk, such as a bank failing or borrower defaulting, is still an issue that needs to be considered. Against this background and the risks within the economic forecast, officers will be cautious when undertaking 2019/2020 treasury operations. The Director of Finance, Investment and Risk (S151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp **FALL** in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper **RISE** in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.12.2 Any decisions will be reported to Cabinet at the next available opportunity.

4.13 Policy on borrowing in advance of need

4.13.1 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.

4.14 Debt rescheduling and repayment

4.14.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.14.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.14.4 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. The forecasts under-pinning this strategy assume that cash balances will be used to repay maturing debt, at least for the short-term, i.e. the next three-year period.

4.14.5 All rescheduling will be reported to Cabinet, at the earliest meeting following its action.

4.15 Sources of finance

4.15.1 The Council's main source of finance is borrowing from the Public Works Loan Board (PWLB) where funds can be borrowed for up to 50 years at both fixed and variable rates. The Council has qualified for borrowing from the PWLB at the 'certainty rate' which is the prevailing PWLB interest rate on the date of borrowing less a discount of 0.20%. This discounted rate applies for funding of capital schemes through prudential borrowing and for the refinancing of maturing long term debt. With long-term PWLB rates currently low, this 'certainty rate' now makes funding through the PWLB a relatively attractive option. In order to reduce the risk that loans will mature when interest rates are peaking, debt is taken on in tranches that mature over a spread of years. This is described as the debt maturity profile. New loans will be taken to fit into gaps in the Authority's existing debt maturity profile.

4.15.2 In the Autumn Budget 2017, the government announced that it would make available £1bn of lending at the Local Infrastructure Rate of gilts + 60bps to English local authorities. Following the announcement local authorities were asked to apply to HM Treasury to access funds at this reduced borrowing rate. Two bidding rounds were introduced running from 1 May 2018 to 31 July 2018 and 1 January 2019 to 31 March 2019. Up to £500m has been made available in each bidding round, with a maximum of £100m available for any one local authority. The Council will be submitting a bid covering various projects in the second bidding round which will close on 31 March 2019.

4.15.3 The Council continues to attempt to source cheaper alternatives to the PWLB in order to finance the borrowing requirement for future years. Other than the PWLB, the Council currently uses other UK local authorities willing to offer loans up to 5 years and the European Investment Bank, both of which provide financing below the PWLB certainty rate. The PWLB Certainty Rate will be used as a benchmark against which borrowing options are assessed. The Council has also found and will make use of commercial lenders willing to lend at rates below the PWLB certainty rate and continues to look at options such as Local Authority Bonds and the Municipal Bond Agency.

4.15.4 Long-term borrowing to support Borough regeneration will service the capital financing requirements of the Council's arms-length development company, Brick by Brick. Onwards lending will be at a margin to the cost of borrowing and interest payments together with repayment of principal will prime additional investment. Investment in the Borough's Growth Zone should generate additional business rates that can be applied to service debt funding.

ANNUAL INVESTMENT STRATEGY

4.16 Investment policy

4.16.1 The Council's investment policy has regard to the Ministry of Housing, Communities and Local Government (MHCLG)'s (previously the DCLG) Guidance on Local Government Investments 3rd Edition ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 Edition ("the CIPFA TM Code"). The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This section of the report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy. The Council's investment priorities will be security first, liquidity second, then return. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short-Term and Long-Term ratings.

4.16.2 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.16.3 Investment instruments identified for use in the financial year are listed in **Appendix B** under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices.

4.16.4 The Council may wish, from time to time, to take advantage of financial derivative instruments in order to better manage risks, such as exposure to interest rate movements. Local authorities, including the Council, have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. Lender Option Borrower Option (or LOBO) loans). However, previous legislation was understood to prevent the use of such tools where they were not embedded in other instruments. The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over local authorities’ use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires local authorities to clearly detail their policy on the use of derivatives in their annual strategy.

4.16.5 The Council will only use financial derivatives (such as swaps, forwards, futures and options) either on a standalone, or embedded basis, where it can be clearly demonstrated that as part of the prudent management of the Council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. This will be determined in liaison with the Council's external advisors. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit if applicable.

4.16.6 At all times the Council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management.

4.17 Annual Investment Strategy

4.17.1 The investments, both specified and non-specified, that officers will be permitted to undertake in-house are summarised below. Further details are provided in **Appendix B.**

a. **Specified Investments -** All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF).

- Term deposits with UK Government or with UK local authorities.
- Term deposits with credit - rated deposit takers (banks and building societies).
- Certificate of Deposits.
- AAA rated Money Market Funds.
- Bonds issued by multinational development banks.
- Enhanced AAA rated Money Market Funds.
- UK Government Gilts.
- UK Government Treasury Bills.

b. **Non-specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies).
- Term deposits with UK local authorities.
- Certificate of Deposits (CD).
- Callable deposits with credit rated deposit takers (banks and building societies).
- Forward deposits with credit rated banks and building societies.
- Bonds issued by multinational development banks.
- Enhanced AAA rated Money Market Funds.
- UK Government Gilts.
- Property Funds.
- Floating Rate Notes (FRNs) issued by institutions on the Council's authorised lending list.
- Investment grade Corporate Bonds issued by Corporate Institutions.
- AAA rated Covered Bonds.
- Investment in the equity of any company wholly owned by Croydon Council.

4.17.2 Investment Income Gross - Based on cash flow forecasts for 2019/2020, the Council anticipates its average daily cash balances for the year to be £70.0m, which includes the £68.0m of new borrowing to be undertaken in 2019/2020. The overall balances include schools balances and HRA revenue balances for which an apportionment of investment interest earned is made. The net income then due to the General Fund is estimated at £0.560m for 2019/2020.

4.17.3 All credit ratings in respect of financial institutions that the Council invests monies in will be continuously monitored together with the limits imposed on amounts that can be invested and the duration of such investments. The Council is alerted to news relating to financial institutions and changes in ratings by its treasury management advisers as these occur and is therefore in a position to take appropriate action to protect the Council's interests.

4.17.4 The Director of Finance, Investment and Risk (Section 151 Officer) will be responsible for managing all investments within the credit limits as set out in **Appendix E** and in accordance with CIPFA's Treasury Management in the Public Services Code of Practice 2017 Edition.

4.17.5 Link Asset Services have advised and assisted Council Officers in compiling and maintaining a counterparty lending list based on FITCH credit ratings and other related information in force as at 31st December 2018. This is attached at **Appendix E** and the Council is recommended to approve this list of counterparties and the criteria set for inclusion on to both List A and List B. In respect of List A the credit limits that apply range from £15m to £25m depending on the institution and the credit limit for institutions on List

B is set at £10m for each institution. The maximum duration of investments in the institutions on both lists will be subject to Link Asset Services' recommendations at the time that investments are made. Under the updated regulations the Authority is obliged to consider a range of different sources of information before taking a view on whether to invest with any counterparty. These sources include each of the rating agencies, the Credit Default Swap (CDS) spreads which gives early warning of likely changes in credit ratings as well as the sovereign rating for the country and other market driven information. Link Asset Services summarise these different views in forming an overall picture of the credit-worthiness of each, which is communicated to this Authority. FITCH ratings are the most valuable in this particular case as they focus more on European banks whereas Moody's and Standard & Poor's look more at the US.

4.17.6 The principle of ensuring capital security and then of securing the best rate of return underpins all treasury investment decisions. There is a growing concern, triggered by a succession of high profile banking scandals, that the reducing pool of quality counter-parties, such as banks, is increasing the level of risk for the Authority. These risks are not simply the risk that principal sums invested might be lost but also reputational risks to the Authority. In response, the Council's Treasury team has investigated other high-grade deposit takers, to increase diversification of investments and thereby reduce the overall concentration of risk of default. As a consequence of this, the Council has put into place a Custodian agreement offered at a discount by the Bank of New York Mellon – the Custodian used by the Council's Pension Fund. This has enabled the Treasury team to diversify investments and to enhance yields by investing in those specified and unspecified investments that require custody arrangements. A list of the Specified and Non-Specified investments that Council Officers are permitted to undertake in-house is detailed in **Appendix B.** In the immediate short-term there will be no increase in returns, but the Treasury team will be better placed to exploit market opportunities in the longer term.

4.17.7 The UK government's stake in the Royal Bank of Scotland (RBS) PLC group at around 62.4% makes it the majority shareholder in that bank. The RBS Group will therefore be retained as an approved investment counterparty until such time as the situation changes. Further, as National Westminster Bank PLC which is part of the RBS PLC Group, provides the Council with banking services, the investment limit for this counterparty will remain at £25m.

4.17.8 Ring-fencing legislation, brought in by the government to strengthen the financial system following the financial crisis that began in 2007, requires each large UK bank to separate its retail banking activity from the rest of its business. This is to protect customers and the day-to-day banking services they rely on from unrelated risks elsewhere in the banking group and shocks affecting the wider financial system. It is intended to reduce the likelihood that essential banking services are put at risk by a failure in another part of the business, such as investment banking. The large UK banks have implemented ring-fencing. .

4.17.9 With regard to UK Challenger banks, the majority of local authorities do not include these banks in their counterparty lists. Although at present, Challenger banks do not have credit ratings and so fall outside investment strategy criteria, it is expected that these banks may get rated in the future. The situation on Challenger banks and UK part-nationalised banks will be monitored continuously.

4.17.10 In the current low interest rate environment, Money Market Funds (MMFs) can also be used effectively to provide returns in excess of straight overnight bank deposits and to provide for excellent liquidity if required. The Council invests in MMFs which are AAA rated by the FITCH rating agency and at least one of the other two major ratings agencies – Moodys and Standard & Poor's.

4.17.11 In addition, the Council will continue to lend to other UK local authorities and to the Debt Management Office, which effectively is lending to the Government.

4.17.12 As at 31st December 2018, short-term investment interest rates (1-3 months) were between 0.70% and 0.80% with longer term rates (up to 1 year) between 0.95% and 1.10%. Investments will be made to take advantage of higher yields and to hedge against future decreases in bank rates. Daily liquidity requirements will be met by investing in AAA-rated MMFs. As investment rates are influenced throughout the year by the release of key items of data, there may be occasions when some investments will be pitched towards specific periods to take advantage of any unexpected higher rates resulting from data issued. In all cases investment decisions will adhere to Link Asset Services' recommended maximum investment durations for the counterparty concerned.

4.18 Treasury Limits

4.18.1 Section 3 of the Local Government Act 2003 requires the Council to set limits and to keep under review how much it can afford to borrow. The amounts so determined are to be set on a rolling basis, for the forthcoming financial year and two successive financial years, a period of three years in total from 2019/2020 to 2021/2022 and are termed:

1. The **'Operational Boundary for External Debt'**. This reflects the maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.

2. The **'Authorised Borrowing Limit'**. This limit represents an assessment of the maximum debt the authority may need to incur at any point throughout the year as determined in the Financial Strategy by the Executive Director of Resources.

4.18.2 The Director of Finance, Investment and Risk (S151 Officer) will be responsible for setting the Council's Authorised Borrowing Limit. This limit requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax and housing rent levels is acceptable.

4.18.3 The Council's authorised borrowing limit has been estimated to be:

£1,355m for **2018/2019**;
£1,486m in **2019/2020;**
£1,550m in **2020/2021;** and
£1,615m in **2021/2022**

as detailed in **Appendix C**. These limits reflect the maximum amount the Council can borrow for capital and revenue purposes and allows for unexpected events for example a possible delay in the receipt of anticipated council tax, National Non-Domestic Rates (NNDR) direct debits, housing benefit subsidy or other government grant that had been notified to Council Officers in advance. The sum of £50m has been included in respect of revenue borrowing to cover the possibility of this shortfall. The limit reflects a level of borrowing which while not desirable is affordable in the short term to fund the cash flow requirements of the organisation and to address any potential risks that may arise.

4.19 Prudential Indicators

4.19.1 The Prudential Indicators for 2019/2020 to 2021/2022 are attached in **Appendix C** in accordance with the Prudential Code for Capital Finance in Local Authorities 2017 Edition.

4.19.2 The Executive Director of Resources is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy.

4.19.3 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management.

4.19.4 The Prudential Indicators set will continue to be monitored throughout the year and will be reported to Cabinet on a regular basis.

4.19.5 The indicators break down into four blocks relating to capital expenditure; the affordability of that investment programme; debt; and treasury management as follows:

1. The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through borrowing. (**See Appendix C**).

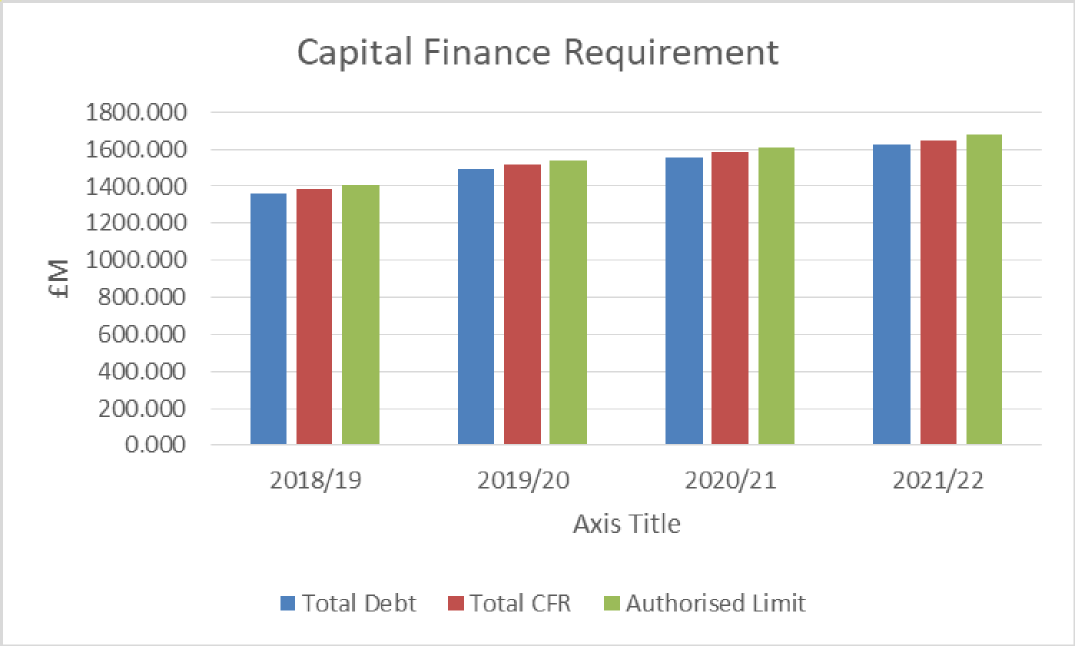
2. Apart from borrowing that is directly supported by government grant funding, the cost of new prudential borrowing to the Authority will be £80 per Band D council taxpayer in 2018/2019. This Prudential Indicator reflects the impact of funding decisions relating to capital investment in Croydon. The Prudential Code specifically indicates that it is not appropriate to compare this indicator with other authorities.

3. The external debt indicators illustrate the calculation of the authorised borrowing limit.

4. The treasury indicators show that the Authority will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year, for reasons of limiting exposure to risk and guaranteeing adequate liquidity. The final indicator sets a profile for the maturing of new debt.

4.19.6 These main indicators are featured below as follows:

Chart 1: Comparison of Debt against Prudential Limits 2018 / 2022



4.20 Conclusion

4.20.1 The Council's treasury advisers based on an orderly Brexit scenario forecast that the bank rate, currently at 0.75%, will increase by 0.25% by December 2019 and a further 0.50% by December 2020, maintaining a slow upward trajectory in the short to medium term. The longer term (25 years) PWLB interest rates, which currently are 2.9%, are expected to increase to around 3.10% by December 2019 and 3.20% by December 2020. A disorderly Brexit is likely to have a negative effect on rates. Over the next year the Council will be able to borrow at rates below its current average cost of debt of 3.14% to finance its capital programme.

4.20.2 Temporary investment rates are currently between 0.70% and 1.10% for up to one year and between 1.10% and 1.70% for between one and five years. Investment rates are likely to remain low next year and the direction remains difficult to forecast due to the ongoing uncertainty caused by the current political environment.

4.20.3 A glossary of terms associated with this report is attached in **Appendix F**.

5. CONSULTATION

5.1 Full consultation in respect of the contents of this report has taken place with the Council's treasury management advisers Link Asset Services in preparing this report.

6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

6.1 Revenue and Capital consequences of this report are dealt with within this report.

There are no additional financial considerations other than those identified in this report.

6.2 **The effect of the decision**

Approval to this report will ensure that the Council meets both its legal and financial management requirements in respect of Treasury Management.

6.3 **Risks**

There are no further risks issues other than those already detailed in this report**.**

6.4 **Options**

These are fully dealt with in this report.

6.5 **Future savings/efficiencies**

This report sets out the Treasury Strategy and identifies that new loans and debt restructuring will only be undertaken on advice from our treasury management advisers.

7 LEGAL CONSIDERATIONS

7.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the recommendations within this report are reserved matters for decision by Full Council. The legal implications are set out under the various sections within the report but in particular these include the requirement for the Council to produce a balanced budget of which the various strategies and limits detailed within this report form a part.

7.2 Furthermore, the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) made pursuant to the Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)" (" The Treasury Code") issued by CIPFA.

7.3 In relation to the Annual investment strategy, the Council is required to have regard to the Guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 entitled "Statutory guidance on Local Government Investments 3rd Edition" which is applicable from and effective for financial years commencing on or after 1 April 2018.

7.4 Under the provisions of Section 3(1) and (8) of the Local Government Act 2003, the Council shall determine and keep under review how much money it can afford to borrow, and the function of determining and keeping these levels under review is a reserved function of Full Council.

7.5 In determining the Annual Minimum reserves and the recommended policy recommended in this report around such reserves, the Council shall have regard to the Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003 entitled "Statutory guidance on minimum revenue provision"

7.6 The requirement for a Capital Strategy Statement stems from the provisions of the Prudential Code which was most recently updated in December 2017. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority. The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy.

Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer

8 HUMAN RESOURCES IMPACT

8.1 There are no immediate HR considerations that arise from the recommendations of this strategy for Croydon Council staff or workers,

Approved by: Sue Moorman, Director of Human Resources

9 EQUALITIES IMPACT

9.1 Consistent with the requirements of the Equality Act 2010 and thePublic Sector Equality Duty, the Council carries out an equality anaylsis on new policies, or existing policies which are the subject of major change.

9.2 The Council's Capital and Revenue Budget 2019/2020 is not subject to an equality analysis. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality analysis which evaluates how the new or changed policy may have a potential impact on groups that share a protected characteristic. The equality analysis includes consultation with relevant public bodies, voluntary, community, trade union and other interest groups, such as staff, with an interest in the matter.

Approved by: Yvonne Okiyo, Equalities Manager

10 ENVIRONMENTAL IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11 CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

12.1 The recommendations proposed are in accordance with the Treasury Management in the Public Services Code of Practice 2017 Edition and the Prudential Code for Capital Finance in Local Authorities 2017.

13 OPTIONS CONSIDERED AND REJECTED

13.1 Consideration and evaluation of alternative options are dealt with within this report.

CONTACT OFFICER: Nigel Cook, Head of Pensions and Treasury
Ext 62552

BACKGROUND DOCUMENTS:

CIPFA's Prudential Code for Capital Finance in Local Authorities – 2017 Edition.

CIPFA's Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition.

MHCLG's Guidance on Local Government Investments February 2018.

APPENDICES:

Appendix A – Long-term debt profile
Appendix B – Specified and non-specified investments
Appendix C – Prudential Indicators
Appendix D – Minimum Revenue Provision Policy
Appendix E – Authorised Lending List
Appendix F – Glossary
Appendix G – Commentary on Interest Rate Forecasts