MEDIUM TERM FINANCIAL PLAN

2018- 2021

Liberal Democrat Group

THREE RIVERS DISTRICT COUNCIL

COUNCIL – 20 FEBRUARY 2018

FINANCIAL PLANNING 2018 - 2021

RECOMMENDATIONS OF THE LIBERAL DEMOCRAT GROUP

1. The Council notes the following pressures on its budget:

- Revenue Support Grant (RSG) will reduce from £3.0m in 2013/14 to £0.01m in 2018/19 and to zero in 2019/20;

- The proposed National Joint Council pay award. This level of pay award has previously been capped but this has been set at 2% in 2018/19 and will mean a pressure of £0.7m over the medium term.

2. Council further notes the following achievements, enabling services to be protected without steep increases in its council tax:

- Cashable efficiency savings averaging over £0.3m per year, sustained over the last thirteen years; and further cashable efficiency gains and additional income planned over the course of the medium term financial plan;

- Increased income, excluding government grants and council tax, rising from £6.1m in 2013/14 to £8.6m in 2020/21. This includes returns on the investment into property assets, which may be funded from a combination of internal borrowing or prudential borrowing.

3. Council agrees the following actions;

(a) That the 2017/18 revised estimates for the revenue account be approved giving a balance at 31 March 2018 of **£3.347m.**

(b) That the draft revenue estimates in respect of the revenue account for the period 1 April 2018 to 31 March 2021 be approved. (Appendix 1 attached)

(c) That **£2.0m** be considered as a prudent minimum balance for the general fund.

(d) That the capital expenditure plans from the period 1 April 2017 to 31 March 2021 be approved and notes the capital balances carried forward for future years. (Appendix 2 attached)

(e) That the Council's total capital investment programme for 2017/18 be approved at **£18.585m**.

(f) That the arrangements for funding the 2017/2018 capital investment programme resulting in an estimated balance of capital resources at 31 March 2018 of **£12.394m** be approved.

(g) That the financial and budgetary risks be approved and their management monitored by the Audit Committee. (Appendix 3 attached)

(h) That the Council the Treasury Management Strategy Statement 2018/19 to 2020/2021 be approved. (Appendix 4 attached)

(i) That the Council notes the Director of Finance's advice on the robustness of the estimates and the adequacy of the financial reserves.

STATEMENT OF CHIEF FINANCIAL OFFICER

Under Section 25 of the Local Government Act 2003, I have a duty to report on the robustness of the estimates and the adequacy of the financial reserves.

With regard to the robustness of the estimates, I have advised the Council that a minimum prudent revenue balance of £2.0m is appropriate having taken into account the risks identified in the financial planning reports presented to members. The estimates should also avoid unsustainable revenue deficits.

The Liberal Democrat Group's proposals for the Medium Term Financial Plan;

1. allows for an increase of £5 in the district's average council tax charge for 2018/19, and thereafter.

2. use the assumptions in the Officer base budget presented to the Policy and Resources Committee on 29 January 2018.

3. include additional growth and additional income to those included in the Officer base budget presented to the Policy & Resources Committee on 29 January 2018. (see Appendix 1a)

Under the assumptions used, the estimates have been correctly calculated, and do not significantly vary the level of risk already identified. They result in a revenue deficit of **£0.398m** in 2020/21 and an estimated revenue balance of **£3.460m**. Capital resources are estimated to be of **£5.362m** at 31 March 2021. These reserves are considered to be adequate.

J .Wagstaffe
Director of Finance (Shared Services)
20 February 2018

APPENDIX 1

MEDIUM TERM FINANCIAL PLAN

Funding	2017/2018 Revised Budget	2018/2019 Proposed Budget	2019/2020 Draft Budget	2020/2021 Draft Budget
Council Tax Base (No.)	37,812.10	**38,243.70**	38,434.92	38,627.09
Council Tax Base Increase (%)	**1.18**	**1.14**	**0.50**	**0.50**
Band D Council Tax (£)	163.90	168.90	173.90	178.90
Council Tax Increase - TRDC (%)	**3.15**	**3.05**	**2.96**	**2.88**
Council Tax (£)	(6,197,403)	(6,459,361)	(6,683,832)	(6,910,387)
Parish Precepts (£)	*(1,824,377)*	*(1,921,233)*	*(1,959,660)*	*(1,998,850)*
Total Taxation (£)	**(8,021,780)**	**(8,380,594)**	**(8,643,492)**	**(8,909,237)**
Government Grants (£)	(2,197,572)	(1,930,641)	(1,610,950)	(1,610,950)
Council Tax Transition Grant (£)	(65,689)	0	0	0
Collection fund deficit	(50,000)	(203,640)	0	0
New Homes Bonus Grant	(793,546)	(554,649)	(317,679)	(110,839)
Dividend (£)	(50,000)	(50,000)	(50,000)	(50,000)
Business Rates Pooling (£)	0	(400,000)	(400,000)	(400,000)
Business Rates Growth (£)	(650,000)	(700,000)	(700,000)	(700,000)
Total Grant Funding (£)	**(3,806,807)**	**(3,838,930)**	**(3,078,629)**	**(2,871,789)**
Total Taxation & Grant Funding (£)	**(11,828,587)**	**(12,219,524)**	**(11,722,121)**	**(11,781,026)**

Financial Statement - Summary	2017/2018 Revised Budget £	2018/2019 Proposed Budget £	2019/2020 Draft Budget £	2020/2021 Draft Budget £
Expenditure:				
Employees	13,507,340	13,652,590	13,800,660	13,800,660
Premises	2,054,280	1,855,170	2,108,570	2,108,570
Transport	1,317,060	1,320,100	1,320,100	1,320,100
Supplies & Services	4,431,882	3,957,242	3,865,832	3,865,832
Third Party Payments	1,449,620	1,306,890	1,240,160	1,240,160
Growth (+)/Savings (-) at period 8	(112,130)	355,940	406,130	568,440
Impact of additional pay award offer by National Employers	0	139,620	235,650	332,650
Revenue Implication of PIDS	0	61,530	30,880	20,380
Further Service Growth & Additional Income	0	***(166,700)***	***(166,700)***	***(166,700)***
Parish Precepts	*1,824,377*	*1,921,233*	*1,959,660*	*1,998,850*
Sub-Total	**24,472,429**	**24,403,615**	**24,800,942**	**25,088,942**
Income:				
Fees & Charges and Other Grants	(8,275,690)	(8,380,760)	(8,401,950)	(8,401,950)
Rents	(2,407,870)	(3,359,960)	(3,365,960)	(3,365,960)
Housing & Council Tax Benefits (net)	(693,870)	(671,870)	(671,870)	(671,870)
Internal Recharges to Capital	(320,590)	(320,590)	(320,590)	(320,590)
Net Transfer from Reserves	(59,910)	(59,910)	(59,910)	(59,910)
Interest Received	(139,000)	(70,000)	(90,000)	(90,000)
Sub-Total	**(11,896,930)**	**(12,863,090)**	**(12,910,280)**	**(12,910,280)**
Net Expenditure	**12,575,499**	**11,540,525**	**11,890,662**	**12,178,662**
Income from Council Tax, Government Grants & Business Rates	**(11,828,587)**	**(12,219,524)**	**(11,722,121)**	**(11,781,026)**
(Surplus)/Deficit	**746,912**	**(678,999)**	**168,541**	**397,636**

Movement on General Fund Balance	2017/2018 Revised Budget £	2018/2019 Proposed Budget £	2019/2020 Draft Budget £	2020/2021 Draft Budget £
General Fund Balance Brought Forward at 1 April	(4,094,294)	(3,347,382)	(4,026,381)	(3,857,840)
Revenue Budget (Surplus)/Deficit for Year	**746,912**	**(678,999)**	**168,541**	**397,636**
General Fund Balance Closing Balance at 31 March	**(3,347,382)**	**(4,026,381)**	**(3,857,840)**	**(3,460,204)**

APPENDIX 1a

Additional Service Growth & Income to the Officer base budget reported to the Policy and Resources Committee on 29 January 2018	2018/19 Proposed Budget	2019/20 Draft Budget	2020/21 Draft Budget
Growth	**£**	**£**	**£**
Services			
1. Increase in grant for the Youth Council	2,000	2,000	2,000
2. Increase in Community Project grants	4,300	4,300	4,300
3. Increase in the maintenance of district-wide Open Spaces	10,000	10,000	10,000
Total Service Growth	**16,300**	**16,300**	**16,300**
Additional Income	**£**	**£**	**£**
Services			
1. Increase in Garage Rent	(90,000)	(90,000)	(90,000)
2. Increase in Fees and Charges - to move towards full cost recovery of the Garden waste service	(93,000)	(93,000)	(93,000)
Total Additional Service Income	**(183,000)**	**(183,000)**	**(183,000)**
Net Services Cost	**(166,700)**	**(166,700)**	**(166,700)**
Funding			
3. Increase income from the Hertfordshire Business Rates Pool	0	(400,000)	(400,000)
Total Growth and Additional Income	**(166,700)**	**(566,700)**	**(566,700)**

APPENDIX 2

CAPITAL INVESTMENT PROGRAMME 2017 - 2021

Leisure, Wellbeing & Health	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
Heritage & Tourism Initiative	10,210	20,000	0	0	To scope the potential for a Heritage Lottery grant application for the promotion of Heritage and Tourism in the District.
Countryside Management	10,000	10,000	10,000	10,000	Core contribution to Herts CC Countryside Management
Watersmeet Boiler Replacement	48,000	0	0	0	To reflect on-going requirement for capital expenditure on assets.
Aquadrome	21,000	21,000	21,000	21,000	To reflect on-going requirement for capital expenditure on assets.
Allotments	5,000	5,000	5,000	5,000	Reinstatement of Allotment Land
Bury Lake Young Mariners	0	1,000,000	0	0	To develop a replacement facility at The Aquadrome for the provision of sailing activities to the community on Bury Lake
Scotsbridge - Chess Habitat	6,000	11,390	0	0	This will improve the riverine habitat of the River Chess for fish and other species in partnership with the Environment Agency, Chilterns Chalk Stream Project and Wild Trout Trust.
South Oxhey Leisure Centre	77,850	30,000	0	0	To undertake the project management and procurement for the provision of a new leisure centre in South Oxhey.
Buildings Improvements	50,000	50,000	50,000	0	To enhance the assets used to provide leisure and community facilities. Principally facilities operated by Hertsmere Leisure where the Council retains responsibility for major improvements.
Cemetery Car Park	95,000	0	0	0	Providing a car park for at least 20 cars at Woodcock Hill Cemetery.
Capital Grants & Loans	135,650	60,000	60,000	60,000	These grants contribute to safer communities through increasing the number of leisure and community facilities available to targeted groups, and to sustainable communities through supporting and enabling the voluntary sector.
Watersmeet Air Conditioning & Heating	3,000	0	0	0	To replace the air conditioning & heating in Watersmeet
Access Improvements	81,450	50,000	50,000	50,000	Improve footpath networks on key open space sites to ensure continued public use and provide improved access in line with management plans and Green Flag objectives.
Leavesden Management Plan	0	200,000	0	0	To support the Leavesden Management Plan
Tractor for Leisure Venues	25,000	0	0	0	To purchase Tractor for Leisure Venues.
Improve Play Area - Future Schemes	195,110	315,000	100,000	100,000	To provide play facilities throughout the district
New Play Area-Chorleywood	0	102,320	0	0	To support the purchase of a new play area at Chorleywood.
Energy Performance Certificate	4,000	2,000	2,000	2,000	On-going statutory requirement for the provision of Energy Performance Certificates and Display Energy Certificates to Council owned shops and premises over 1,000 square metres.
Cemetery - Whole Life Costing	15,000	5,000	5,000	5,000	To reflect on-going requirement for capital expenditure on assets.
Aquadrome - Whole Life Costing	8,540	10,000	10,000	10,000	To reflect on-going requirement for capital expenditure on assets.
Replacement of Grounds Maintenance Vehicles	211,210	223,000	323,000	93,000	A rolling programme of purchases as existing vehicles come to the end of their useful lives.
Watersmeet - Whole Life Costing	15,000	15,000	15,000	15,000	To reflect on-going requirement for capital expenditure on assets.
Pavilions - Whole Life Costing	21,560	10,000	10,000	10,000	To reflect on-going requirement for capital expenditure on assets.
Fairway Inn - Whole Life Costing	2,000	2,000	2,000	0	To reflect on-going requirement for capital expenditure on assets.
Scotsbridge Sports Pitch	0	50,000	0	0	To support the development of a new sports pitch at Scotsbridge
Batchworth Lake Access Improvements	277,000	0	0	0	To Improve access in the aquadrome
Aquadrome Ultra Sound Units	53,460	0	0	0	To help the prevention of blue/green algae
TOTAL	**1,371,040**	**2,191,710**	**663,000**	**381,000**	

Sustainable Development, Planning & Transport	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
Cycle Schemes	6,670	75,000	25,000	25,000	Provision of new on road or new signed advisory routes. To have a co-ordinated network of cycle tracks linking all settlements throughout the District.
Disabled Parking Bays	2,500	2,500	2,500	2,500	New Disabled Parking Bays around the District. The provision of "advisory" parking bays for residents with disabilities who require a car and have a Blue Badge.
Controlled Parking	182,000	50,000	50,000	50,000	New parking controls throughout District. Safer environment with more effective use of available parking space.
Princes Trust - Business Start-up	10,000	10,000	10,000	10,000	Grant paid to Prince's Trust which offers grants, loans and a range of advice to Three Rivers residents starting their own businesses. Prince's Trust-grants (18-30 age group)
Listed Building Grants	500	5,000	5,000	5,000	Grants for Listed Buildings. New works to properties. Long term preservation and enhancement of the district's built heritage.
South Oxhey Initiative	431,340	100,000	0	0	On going project - Costs associated with acquisition and project management
Parking Bays & Verge Protection	0	152,000	40,000	40,000	To provide parking facilities in residential areas experiencing pressure.
Highways Enhancements	22,200	90,000	50,000	50,000	District priority highway improvements. To improve highway safety in residential areas.
Bus Shelters	16,000	9,000	9,000	9,000	New facilities rather than maintenance of existing shelters
Implementation of New Parking Contract	46,250	0	0	0	Costs associated with new Parking contract with Hertsmere BC
Retail Parades	100,750	30,000	30,000	30,000	Enhancement of retail parades throughout the district. Enhancements required following safety audits
Rickmansworth Work Hub	6,000	39,000	0	0	To provide a work hub facility for local entrepreneurs, freelancers and homeworkers from the Rickmansworth area within Three Rivers House.
Disabled Facilities Grants	654,640	500,000	500,000	500,000	The provision of mandatory grants to disabled people to facilitate access to, from and around their property.
Home Repairs Assistance	5,000	10,000	10,000	10,000	The provision of grants to vulnerable people who cannot obtain commercial funding (including equity release). To carry out essential improvements where there is a severe hazard to health, safety and welfare of the resident.
Car Park Restoration	45,000	10,000	10,000	10,000	Provision of reconstructed facilities. A programme for the reconstruction of the Council's public short and long stay car parks
Renovation Grants	3,000	0	0	0	The provision of discretionary grants to vulnerable people who cannot obtain commercial funding (including equity release). Designed to provide assistance with small scale works of repair, improvement and adaptations to a dwelling.
Estates, Paths & Roads	35,000	20,000	20,000	20,000	When the housing stock was sold to Thrive Homes the Council retained the estate roads and paths which require a phased programme of works.
TRDC Footpaths & Alleyways	20,000	20,000	20,000	20,000	To improve and provide footpaths and alleyways in the district
Temporary Accommodation Rickmansworth	1,107,430	58,300	0	0	To provide temporary accommodation at The Bury
Temporary Accommodation-Other sites	100,000	2,160,000	0	0	To provide temporary accommodation at other sites in the district
Parking Pay & Display Machines	50,000	0	0	0	To introduce new parking enforcement charges
TOTAL	**2,844,280**	**3,340,800**	**781,500**	**781,500**	

General Public Services & Community Safety	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
Replace Plant & Vehicles	25,000	25,000	25,000	25,000	Funding for Environmental Protection plant, equipment and machinery
Waste Services Depot	0	493,800	0	0	The provision of a new Waste Services Depot
Bulk Domestic Waste	50,000	10,000	10,000	15,000	The funding is for the provision of new residual waste and organic waste bins and recycling boxes or bins to new housing developments and also to properties where the existing bin / box may be damaged, as well as satisfying demand for additional recycling boxes.
Waste & Recycling Vehicles	816,990	475,000	310,000	500,000	Planned replacement programme for waste and recycling vehicles over a seven year period.
Street Furnishings	5,000	15,000	10,000	10,000	For dog & litter bins as required
Paladin Bins	48,350	25,000	25,000	25,000	To purchase both bins for trade and the replacement of existing paladin bins.
TOTAL	**945,340**	**1,043,800**	**380,000**	**575,000**	

Policy & Resources	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
Professional Fees-Internal	226,590	226,590	226,590	226,590	Permitted costs transferred from Revenue to Capital
Election Equipment	10,000	12,000	6,000	6,000	Purchase of polling booths, portable ramps and ballot boxes
Members' IT Equipment	25,920	0	16,260	16,260	To purchase ICT equipment for Councillors
Chorleywood House Estate	12,900	0	0	0	This relates to fencing
7815 - Boundary Way Wall insulation	0	0	0	0	To reflect on-going requirement for capital expenditure on assets.
ICT-Managed Service - Project Costs	254,380	60,000	60,000	60,000	To support the ICT managed Service Project Costs
Garage Improvements	7,960	48,000	25,000	25,000	Garages retained after stock transfer. Capital works to enable letting.
ICT - TRDC - Licence Costs	81,340	300,000	100,000	100,000	Permitted capitalisation of software licences
Customer Contact Programme	15,000	82,500	0	0	To implement customer contract software to improve customer services
ICT Website Development	0	14,870	0	0	To reflect on-going requirement for capital expenditure on assets.
ICT Elections	15,000	16,000	17,000	17,000	Election IT software
ICT Hardware Replacement	263,710	45,000	45,000	45,000	PC and server replacement programme for services outside the scope of existing shared services
TRH Whole Life Costing	193,000	143,000	98,000	135,000	To reflect on-going requirement for capital expenditure on assets.
35-37 Oxhey Drive - Whole Life Costing	4,400	0	0	0	To reflect on-going requirement for capital expenditure on assets.
Basing House - Whole Life Costing	2,000	2,000	2,000	2,000	To reflect on-going requirement for capital expenditure on assets.
Investment Property - Shops	11,900	0	0	0	To reflect on-going requirement for capital expenditure on assets.
ICT- Land Charges	8,750	0	0	0	New ICT solution
Installation Solar system TRH	2,500	0	0	0	To meet green deal requirements
FMS Upgrade	58,000	0	0	0	Funding for replacing hardware in respect of shared services.
IT Modernisation (Road Map)	117,000	420	0	0	To reflect on-going requirement for capital expenditure on assets.
Business Application Upgrade	68,000	200,000	90,000	90,000	To reflect on-going requirement for capital expenditure on assets.
ICT Modernisation	91,610	40,000	40,000	40,000	To reflect on-going requirement for capital expenditure on assets.
Community CCTV	6,000	6,000	6,000	6,000	To maintain an effective CCTV system for ASB and crime hotspots in TRDC
TOTAL	**1,475,960**	**1,196,380**	**731,850**	**768,850**	

Capital Growth Bids	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
Signage for the implementation of the parks and open spaces byelaws	0	9,000	0	0	PID submitted to Service Committees in November/December
Carbon neutral Council	0	2,000	0	0	PID submitted to Service Committees in November/December
Watersmeet refurbishment of upper foyer toilets	0	24,100	0	0	PID submitted to Service Committees in November/December
Parking Services -Schemes arising from the recommendations by the Parking Services Member Working Party (Phase 2)	0	50,000	0	0	PID submitted to Service Committees in November/December. This has been reduced to £50k. Depending on subsequent parking decisions any additional capital will require a separate bid
Refurbishment of garage stock	0	200,000	200,000	200,000	PID submitted to Service Committees in November/December. This has been replaced with a rolling programme of £200kper annum. Priorities will be determined on an annual basis
Parking Bays and Verge Protection	0	0	20,000	20,000	Additional budget to enhance the programme
CCTV	0	15,000	0	0	To futher implement CCTV for ASB and crime hotspots in the area
Leavesden Country Park - Signage	0	10,000	0	0	New project to compliment lottery funding bid
Capital grants	0	(40,000)	(40,000)	(40,000)	Reduction in existing budget to £20k due to decrease in demand
TOTAL	**0**	**270,100**	**180,000**	**180,000**	
TOTAL ALL COMMITTEES	**6,636,620**	**8,042,790**	**2,736,350**	**2,686,350**	

SOUTH OXHEY INITIATIVE	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
South Oxhey Initiative	11,277,040	3,171,776	0	0	To facilitate the South Oxhey regeneration project
TOTAL	**11,277,040**	**3,171,776**	**0**	**0**	

PROPERTY INVESTMENT BOARD	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
Property Investment Board	670,940	19,329,060	0	0	Investment in a Property portfolio which is overseen by the Council's Property Investment Board.
TOTAL	**670,940**	**19,329,060**	**0**	**0**	

LEISURE FACILITY AT SOUTH OXHEY	Revised Budget 2017/18	Proposed Budget 2018/19	Draft Budget 2019/20	Draft Budget 2020/21	Description
	£	£	£	£	
Leisure Facility at South Oxhey	0	8,600,000	0	0	This is part of the new Leisure Facilities Management Contract which has been procured as a Design, Build, Operate & Maintain (DBOM) contract. The new facility replaces the existing leisure facility (The Centre) and will also include a swimming pool. The Council will fund the construction with the capital costs being met from the revenue management fee
TOTAL	**0**	**8,600,000**	**0**	**0**	
TOTAL Capital Spending	**18,584,600**	**39,143,626**	**2,736,350**	**2,686,350**	

Funding the Capital Programme

Funding	2017/18 Revised Budget £	2018/19 Proposed Budget £	2019/20 Draft Budget £	2020/21 Draft Budget £
Balance Brought Forward				
Government Grants and Other Contributions	(64,771)	(206,384)	(206,384)	(206,384)
Section 106 Contributions	(3,545,064)	(3,522,414)	(3,439,544)	(3,439,544)
Capital Receipts Reserve	(6,209,665)	(1,192,146)	0	0
Future Capital Expenditure Reserve	(3,066,770)	(3,066,770)	(2,610,165)	(1,541,495)
New Homes Bonus Reserve	(3,542,002)	(4,406,519)	0	0
Total Funding Brought Forward	**(16,428,272)**	**(12,394,233)**	**(6,256,093)**	**(5,187,423)**
Generated in the Year				
Govt Grants: Disabled Facility Grants	(499,568)	(250,000)	(250,000)	(250,000)
Other Contributions:Leavesden Management Plan	0	0	0	0
Other Contributions: Abbots Langley Parish Council	(135,500)	0	0	0
Other Contributions: Other external Sources	0	(32,870)	0	0
Section 106 Contributions	(3,000)	0	0	0
Capital Receipts Reserve	(1,099,996)	(1,100,000)	(1,100,000)	(2,500,000)
Future Capital Expenditure Reserve	0	0	0	0
New Homes Bonus Reserve	(864,517)	(554,650)	(317,680)	(110,840)
Total Generated	**(2,602,581)**	**(1,937,520)**	**(1,667,680)**	**(2,860,840)**
Use of Funding				
Govt Grants: Disabled Facility Grants	357,955	250,000	250,000	250,000
Other Contributions:Leavesden Management Plan	0	0	0	0
Other Contributions: Abbots Langley Parish Council	135,500	0	0	0
Other Contributions: Other external Sources	0	0	0	0
Section 106 Contributions	25,650	82,870	0	1,500,000
Capital Receipts Reserve	6,117,515	2,292,146	1,100,000	936,350
Future Capital Expenditure Reserve	0	456,605	1,068,670	0
New Homes Bonus Reserve	0	4,961,169	317,680	0
Total Use of Funding	**6,636,620**	**8,042,790**	**2,736,350**	**2,686,350**
Balance Carried Forward				
Government Grants and Other Contributions	(206,384)	(206,384)	(206,384)	(206,384)
Section 106 Contributions	(3,522,414)	(3,439,544)	(3,439,544)	(1,939,544)
Capital Receipts Reserve	(1,192,146)	0	0	(1,563,650)
Future Capital Expenditure Reserve	(3,066,770)	(2,610,165)	(1,541,495)	(1,541,495)
New Homes Bonus Reserve	(4,406,519)	0	0	(110,840)
Total Funding Carried Forward	**(12,394,233)**	**(6,256,093)**	**(5,187,423)**	**(5,361,913)**

South Oxhey Initiative	2017/18 Revised Budget £	2018/19 Proposed Budget £	2019/20 Draft Budget £	2020/21 Draft Budget £
Balance Brought Forward	**0**	**0**	**0**	**0**
Generated in the Year (Land Receipts)	(1,952,019)	(1,750,622)	(3,332,575)	(13,005,584)
Generated in the Year (LEP Funding)	(1,200,000)	0	0	0
Use of Funding (Spend)	11,277,044	3,171,776	0	0
Internal Borrowing	(8,125,025)	(1,421,154)	3,332,575	13,005,584
Total South Oxhey Carried Forward	**0**	**0**	**0**	**0**

South Oxhey Leisure Facility	2017/18 Revised Budget £	2018/19 Proposed Budget £	2019/20 Draft Budget £	2020/21 Draft Budget £
Balance Brought Forward	**0**	**0**	**0**	**0**
Use of Funding (Spend)	0	8,600,000	0	0
Contractor Funded Borrowing	0	(8,600,000)	0	0
Total South Oxhey Leisure Centre Carried Forward	**0**	**0**	**0**	**0**

Property Investment	2017/18 Revised Budget £	2018/19 Proposed Budget £	2019/20 Draft Budget £	2020/21 Draft Budget £
Balance Brought Forward	**0**	**0**	**0**	**0**
Generated in the Year (Land Receipts)	0	0	0	0
Use of Funding (Spend)	670,940	19,329,060	0	0
Internal Borrowing	(670,940)	(19,329,060)	0	0
Total Property Investment Carried Forward	**0**	**0**	**0**	**0**
Total Capital Programme	**18,584,604**	**39,143,626**	**2,736,350**	**2,686,350**

APPENDIX 3

FINANCIAL & BUDGETARY RISKS

Risk No.	Type of Risk	Comment	Risk Impact	Risk Likelihood
7	The Medium term financial position worsens.	In that the general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register.	IV	D
8	Revenue balances insufficient to meet estimate pay award increases	The medium term planning period takes into account a 1% increase for the period 2017/18 to 2019/20	III	D
9	Revenue balances insufficient to meet other inflationary increases	Other than contractual agreements, budgets have been cash limited where possible.	II	D
10	Interest rates resulting in significant variations in estimated interest income	The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy continues to place uncertainty on the investment strategy.	III	C
11	Inaccurate estimates of fees and charges income	See Key Budget Indicators shown in the latest Budget Monitoring report	V	E
12	Revenue balances insufficient to meet loss of partial exemption for VAT	If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vat able expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs. Three Rivers House has been given the opt to tax status which means all lettings are now subject to VAT.	II	E
13	The estimated cost reductions and additional income gains are not achieved	Savings identified and included in the budget will be monitored as part of the budget monitoring process	IV	E

Risk No.	Type of Risk	Comment	Risk Impact	Risk Likelihood
14	The Council is faced with potential litigation and other employment related risks	The Council has no outstanding litigation cases.	III	E
15	The amount of government grant is adversely affected	The grant settlement for 2017/18 and provisional settlements for 2018/19 and 2019/20 have been factored into the MTFP. The Council decided to accept the Government's offer of a four year settlement.	II	E
16	Localising support for council tax	The introduction of universal credits and the localising of support for Council Tax will substantially alter the administering of Housing and Council Tax Benefits	II	E
17	Right to Buy Receipts & VAT Shelter Receipts	Under the housing stock transfer with Thrive Homes Limited (THL) the Council is entitled to use its share of the proceeds to fund the capital programme. The level of activity on these income streams are outside the Council's control.	IV	E
18	Fluctuations in Business Rates Retention	The Council is legally obliged to cover the first 7.5% loss on its pre- determined baseline level.	IV	C
19	Failure to deliver the South Oxhey Initiative to desired outcomes and objectives	This is a key project. This appears as item no.7 in the Council's strategic risk register.	IV	D
20	Failure of ICT systems	The Council's integrated Financial Management System (FMS) is held on an ICT platform. If this were to fail then potentially there will be a loss of functionality occurring during any downtime.	III	E
21	Property Investment	The Council set up a Property Investment Board in 2017 to manage its property portfolio in order to secure an additional revenue stream of £1 million to support the general fund. With the Government's announcement on the restriction of property investments, it presents a risk to achieving this target.	IV	D

Matrix Key

		Impact						
		I	II	III	IV	V	**Likelihood**	**Impact**
Likelihood	A						A equal to/or > 98%	V - Catastrophic
	B						B = 75% - 97%	IV = Critical
	C			10	18		C = 50% - 74%	III = Significant
	D		9	8	7,19,21		D = 25% - 49%	II = Marginal
	E		12,15,16	14, 20	13,17	11	E = 3% - 24%	I = Negligible

APPENDIX 4

TREASURY MANAGEMENT STRATEGY STATEMENT 2018 – 2021

1.0 Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates the approved indicators. Within this overall prudential framework there is an impact on the Council's treasury management function as it can directly impact on borrowing or investment decisions.

2.0 The Capital Plans and Prudential Indicators 2018/19 – 2020/21

The Council's capital expenditure plans are one of the key drivers of the treasury management function. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 The Council's Capital Position

This prudential indicator is a summary of the Council's capital expenditure plans.

	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Total Capital Expenditure	£7.3M	£39.1M	£2.8M	£2.7M

The capital expenditure programme is financed by a combination of capital receipts, capital grants or use of capital reserves. The Council is also permitted to borrow to finance its capital programme, provided that the borrowing is prudent, affordable and sustainable. With the re-development of the South Oxhey Leisure Centre facility, which is part of the new Leisure Management contract the Council may need to borrow. This will be reviewed nearer the start date (currently April 2018) to determine the most advantageous financial position for the Council. The Council is currently debt free.

2.2 The Council's Borrowing Need - The Capital Financing Requirement (CFR)

The CFR is simply the total 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 above, which has not immediately been paid for, will increase the CFR. Even though it is predicted to fund the South Oxhey project through internal funds, it will increase the CFR. Following accounting changes, the CFR also includes any other long term liabilities (e.g. finance leases) that have been brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections below:

	2016/17 Actual	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£M	£M	£M	£M	£M
Total Proposed Capex		7.30	39.1	2.8	2.7
Capital Financing -					
Grants		(0.5)	(0.3)	(0.3)	(0.3)
Reserves		0	(6.3)	(1.4)	0
Capital Receipts		(6.1)	(2.3)	(1.1)	(0.9)
s.106 and CIL		0	0	0	(1.5)
Closing CFR	**£0m**	**£0.7m**	**£30.2m**	**£30.2m**	**£30.2m**
Movement in the CFR*		£0.7m	£30.2m	£0m	£0m
Internal Borrowing		0.7	21.6	0	0
External Borrowing		0	8.6	0	0

***** Includes MRP and/or voluntary contributions to reduce the CFR

Any new capital expenditure if unfunded and requiring credit cover would however need to generate a MRP.

2.3 Minimum Revenue Provision (MRP) Strategy and Policy Statement

The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Council is also able to increase the rate it reduces its CFR by undertaking additional voluntary payments (voluntary revenue provision - VRP) in addition to any MRP; this is not currently the Council's policy.

Government Regulations require the Council to approve **a MRP Statement** in advance of each year. The following MRP statement is recommended:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- ***Existing practice*** *- MRP will follow the existing practice outlined in former Government regulations (option 1);*

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- ***Asset life method*** *– MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3)*

This option provides for a reduction in the borrowing need over the asset's estimated life.
Repayments of PFI or Finance Leases are allowable to use as a proxy for the above methods.

The Council's current external borrowing is supported by matched capital receipts. Any new capital expenditure that is classed as unfunded and therefore requiring credit cover would generate a MRP.

Three Rivers District Council's process is to produce for approval by the Director of Finance, in consultation with the Lead Member, a business case for each scheme intended to be unfunded from other resources. This will clearly show the level of MRP which is proposed to ensure that the repayment of any debt can be made in a period commensurate with the period over which the expenditure provides benefits or makes returns.

Although the South Oxhey Project results in a positive CFR it is recommended that MRP is not applied to this scheme as the project is short-dated and is expected to generate a receipt to cover any financing costs; it is mainly improving works, rather than a capital scheme which will depreciate over time; therefore the Council will not be making a Minimum Revenue Provision for this scheme.

2.4 The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). The Property Investment Board will play an important role in optimising returns on capital investments. Subject to each business case, where reserves or cash balances can be deployed in accordance with the Property Investment Strategy to generate better returns for the Council, then Council is asked to approve the flexibility required to invest Council treasury funds accordingly.

3.0 Treasury Management Strategy

The treasury management strategy is an important part of the overall financial management of the Council's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are regulated by statutory requirements and the CIPFA Code of Practice on Treasury Management. The Council has adopted a Treasury Management Policy Statement in accordance with the code of practice.

The Constitution requires a strategy to be reported to Council outlining the expected treasury activity for the forthcoming three years. A key requirement is to explain the risks associated with the treasury service. Further treasury reports are produced after the year-end to report on actual activity for the year and a mid-year monitoring update. This strategy covers:

- The current portfolio position;
- The borrowing strategy;
- Annual investment strategy;
- Specific limits on treasury activities;
- Treasury performance indicators;
- Reporting requirements;
- Policy on use of external service providers;
- Training of Officers and Members.

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service delivery. This will involve the organisation of both cash flow and the use of approporiate short-term borrowing facilities if required. The strategy covers the relevant treasury prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The table below shows the Council's treasury portfolio position at 31 December 2017. Forward projections allow for the funding of the South Oxhey project from internal cash resources.

Treasury Portfolio	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Borrowing	£0M	£8.6M	£0M	£0M
Total Investments 31 December / March	£32.54M	£12.5M	£12.5M	£12.5M

The Council held £32.54m of investments as at 31 December 2017. Included in the Lloyds Bank total (see table below) is a balance of £12.04m on the current account which is retained for liquidity in order to meet short term cash commitments including precepts. An Interest rate of 0.25% was paid on credit balances on the current account (until 2 Nov 2016) and is currently 0.50% in line with the current bank rate. This information is reported in the monthly Members Information Bulletin.

Institution	Principal (£)
Banks	
Lloyds Bank	5,500,000
Lloyds Bank - Current Account	12,039,338
Total	***17,539,338***
Building Societies	
Nationwide	2,000,000
Principality	7,000,000
Skipton	6,000,000
Total	***15,000,000***
Grand Total	***32,539,338***

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

Monthly Interest Rates to the end of December 2017

Month	Rate Achieved
April	0.51%
May	0.51%
June	0.50%
July	0.50%
August	0.50%
September	0.48%
October	0.36%
November	0.38%
December	0.39%

The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.25% (0.5% from 2.11.17). The returns up to 31 December averaged 0.46%, against a benchmark rate of 0.37%. The average yield return is higher than the benchmark for the year to date. In accordance with its risk appetite, the Council tends to keep the majority of investments short-term (not greater than 364 days).

The budget for interest on investments for 2017/18 is £139,000; interest received up to the end of December was £162,700.

3.2 Prospects for Interest Rates

The Council has appointed Link Asset Services (formerly Capita) 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 our central view.

	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%

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

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

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

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

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

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

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government.

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

3.3 Treasury Indicators: Limits to Borrowing Activity

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.

The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.3.1 Treasury Management Indicator - The Operational Boundary

This is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. The Council may need to borrow, this limit represents a contingency should the need arise.

Operational Boundary	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	£10M	£15M	£10M	£10M

3.3.2 Treasury Management Indicator - The Authorised Limit for External Borrowing

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003.

Authorised Limit	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	£12M	£17M	£12M	£12M

3.3.3 Treasury Management Indicator – Actual External Debt

This is the closing balance for actual gross borrowing obtained directly from the council's Balance Sheet at year end.

The Director of Finance 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 within this report regarding future external borrowing.

3.4 Borrowing Strategy

Although at this stage there is no requirement to borrow externally over the medium term, the Council has a number of regeneration projects and it is possible that these may require pump priming for the necessary infrastructure works. Any external borrowing that is required by the Council will be reported to Members at the appropriate time.

Although the Council's treasury team maintains a cashflow forecast and works its liquidity requirements within this forecast, it may, on rare occasions need to borrow short-term for cashflow purposes. This will be in the form of short term debt or overdraft facilities and is normally for small amounts. As this is based on need and has a defined repayment period it is not normally included within the limits set above.

3.4.1 Policy on borrowing in advance of need

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 (ie: the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds. Any associated risks will be approved and reported through the standard reporting method.

3.5 Annual Investment Strategy

3.5.1 Key Objectives

The Council's investment strategy's primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The current economic climate means that current investments have one over-riding priority which is the management of counterparty security risk.

In order to accommodate any changes to the Strategy the Director of Finance in consultation with the Lead Member, has the delegated authority to approve any variation to the Treasury Management Startegy during the year which may be brought about by changing situations in the financail markets and also as a result of investigating the opportunity to invest for period of greater than one year and to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of maximising the Council's returns. As with all investments, security and liquidity will take precedence over the level of returns.

3.5.2 Investment Policy

The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are security first, liquidity second, then yield.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules and are detailed at Annex A.

As part of its diversification of investments, the Council has invested some of its core funds (ie: funds not immediately required for cashflow reasons) in longer–term investment property instruments. These are in the form of individual assets directly owned by the council. Although the Council has no current investments or plans to invest in pooled property funds, these are an option that could be considered in the future. All property investments are controlled through the Property Investment Board (PIB) and each investment is subject to its own business case and appraisal before a decision to invest is taken and before any Council funds are committed.

3.5.3 Creditworthiness policy

The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary and will provide an overall pool of counterparties considered high quality.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

Counterparty Categories

The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**
  The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.

- **Banks 2 – The Council's Own Banker**
  For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.

- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.
- **Building Societies**
  The Council will use all Societies which meet the ratings for banks outlined above.

- **Specific Public Bodies**
  The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.

- **Money Market Funds AAA Rated**
  The Council may lend to Money Market Funds in order to spread its investment risk.

- **Local Authorities**
  A limit of £5m per authority will be applied.

- **Debt Management Deposit Account Facility**
  A Government body which accepts local authority deposits.

- **Council Subsidiaries (non-specified)**
  The Council will lend to its subsidiaries subject to approval of a business case by the Director of Finance, in consultation with the Lead Member (Resources). Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

The current investment counterparty criteria selection approved in the Treasury Management Strategy is being met.

For details of Specified and Non-Specified Investments see below.

Use of Additional Information Other Than Credit Ratings

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits Applying to Investments

The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

Exceptional Circumstances

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

3.5.4 Investment Strategy

In-House Funds - investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment Returns Expectations:

Bank rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 3 of 2018/19. Bank rate forecasts for financial year ends (March) are:

2017/18	0.50%
2018/19	0.75%
2019/20	1.00%
2020/21	1.25%

Investment Treasury Indicator and Limit - total principal funds invested for greater than one year. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Treasury Indicator & Limit	2017/18	2018/19	2019/20

Maximum Principal Sums invested for greater than one year (excluding property investment and loans to Council subsiduaries).	£5m	£5m	£5m

3.5.5 Investment Risk & Security Benchmarking

These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. In line with the Treasury Management Strategy, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

Security

Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moodys and Standard & Poors).

Liquidity

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £5m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body.

The Council has the benefit of instant access to its funds on the general account with Lloyds.

Yield

The measure of yield on Investments is a return of 0.12% above average bank rate. In accordance with the Code of Practice on Treasury Management which is used as a performance indicator. The results of this indicator for 2016/17 have been reported in the Treasury Outturn Annual Report.

3.6 Reporting Requirements

End of Year Investment Report - the Council will report on its investment activity for the financial year completed as part of its Annual Treasury Management Report after the end of the financial year.

Mid-year Investment Report – the Council will report on its investment activity for that financial year as part of its Mid Year Treasury Management Report at the end of September of that financial year.

Treasury Management Strategy – the Council will produce the Strategy for the next three financial years towards the end of the current financial year.

3.7 Policy on the Use of External Service Providers

The contract for external treasury management advisors has been re-tendered in October 2016, and following this, Capita Asset Services Treasury Solutions (now Link Asset Services) have been appointed as the advisors to the Council until October 2019. The Council recognises that responsibility for treasury management decisions remains with the Council 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.

The Council will also, from time to time, procure specialist advice for ad-hoc pieces of work; this will be procured in accordance with the Council's normal procedure rules.

3.8 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management; from December 2017 there are new codes for Capital Finance in Local Authorities and also a new Treasury Management Code;
- Regular briefings both by email and face to face with the Council's Treasury advisors;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

Treasury Management Practice (TMP1) **ANNEX A**
Credit and Counterparty Risk Management

The DCLG issued a reviewed Investment Guidance in 2010 (second edition), and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime*.*

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced this Treasury Management Practices (TMP's) guidance.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy for the following year*,* covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – the main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – these investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).

2. A local authority, parish council or community council.

3. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies or a Building Society with assets over £1,000m*.* Non rated Building Societies are non-specified investments.

4. Money Market Funds (triple AAA rated only).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy*.*

The ratings criteria and exposure limits are detailed at **Schedule 1.**

Non-Specified Investments – non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
b.	The Council's own banker if it fails to meet the basic credit criteria.	In this instance balances will be minimised as much as possible
c.	Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000M, but will restrict these types of investments to £2m for up to six months.	£2m
d.	Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£10m

In accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

In respect of category d.) this will only be considered after obtaining external advice and subsequent Member approval.

The Council will also consider investment in property in accordance with its Property Investment Strategy. All property investments will be dependent on a standalone business case being proven.

The Monitoring of Investment Counterparties

The credit rating of counterparties is monitored regularly. The main rating agencies (Fitch, Moody's and Standard & Poor's) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties; F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard & Poor's respectively. Minimum Short Term Ratings, where given, must be met for all categories. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the

Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Schedule 1

Institution Type	Max Amount:			£10m	£10m	£10m	£10m	£10m
	Max Length:			10 Years	364 Days	6 Months	3 Months	1 Month
	Minimum Short Term Ratings							
	Fitch	Moody's	S&P					
UK Banks								
The Council's own Bankers	F1	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible.				
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
UK Building Societies								
Either	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Or					Assets over £15,000m	Assets over £5,000m	Assets of £2,500m	Assets of £1,000m
Specific Public Bodies				As approved by Members				
Debt Management Deposit Facility (UK Government)						Unlimited		
Money Market Funds (AAA Rated)								£5m per fund
Municipal Bond Agency				As approved by Members				
UK Local Authorities				The Council can invest in all UK Local Authorities whether rated or not				

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.

2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).

3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.

4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

Property Investment Strategy

The Property Investment Strategy is currently being reviewed. The revised strategy will be published and agreed by Policy and Resources Committee and approved by Council during 2018/19.