Appendix A- Integrated Capital and Treasury Strategy

<u>Overview</u>

<u>Introduction</u>

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate security and liquidity initially before considering investment return.
The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending plans. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define treasury management as:

> *"The management of the local authority'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."*

Recent changes to legislation and guidance have meant that the coverage of this strategy has been extended. First of all this strategy now provides an integrated view of capital spend and income, alongside treasury management. This is because long-term Treasury management is inextricably linked to the funding of the capital programme. Secondly, there is now a requirement to apply treasury management principles to any capital spend that is not related to service provision.

The format of this strategy is as follows:

Part 1- Capital Spend

- A summary of the Council's current capital assets. For those assets that are not held for service provision, an assessment against the principles of Security, Liquidity and Yield.
- Forecasts of the capital and revenue spend required to maintain those assets.
- Planned spend on new capital assets, with the additional assessment of risk, security, liquidity and yield for those assets that are not being acquired for service provision.
- This part of the strategy therefore gives a complete picture of forecast capital spend.

Part 2- Capital balances, receipts and the Capital Financing Requirement (CFR)

- Forecasts of expected receipts from the sale of surplus capital assets.
- Comparing capital spend forecasts with capital reserve balances and forecast future receipts gives the Capital Financing Requirement, which is the Council's need to borrow.

Part 3- Borrowing Strategy and Minimum Revenue Provision (MRP)

- This leads to the setting of a borrowing strategy which sets out how to borrow, when to borrow and for how long.
- Where the Council has a borrowing requirement, then it is required to set a policy on Minimum Revenue Provision.

Part 4- Investment Strategy

- This is then all combined to determine the levels of cash that the Council will have available for investment. This leads to an investment strategy that determines where to invest any balances, including limits on types of investments.

The strategy sets a number of prudential and treasury indicators. A prudential indicator is one which is required by statutory guidance, whereas a treasury indicator is one that is set locally to provide information on performance.

<u>Reporting requirements</u>

Full Council will receive and approve three reports during the year:
- The Integrated Capital and Treasury strategy (this report)
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management strategy

Each of these reports will be reviewed by the Finance, Audit and Risk (FAR) Committee and Cabinet. The FAR Committee and Cabinet will also receive reports on the position as at the end of the first (to end of June) and third (to end of December) quarters. The FAR Committee undertakes an oversight role.

These reports will provide relevant updates on performance against the prudential and treasury indicators.

<u>Treasury Management Policy and Treasury Management Practices</u>

In line with guidance from the Chartered Institute of Public Finance and Accountancy, the Council sets the following treasury management policy:

1. This Council defines its treasury management activities as: The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council will also adopt the Treasury Management Practices (TMPs) detailed in Appendix (tbc).

Treasury Consultant

The Council has contracted with Link Asset Services to provide treasury management advice during 2018/19. It is recognised that the responsibility for treasury management decisions remains with the Council at all times and the Council will ensure that undue reliance is not placed upon Link. However 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.
The Council will be carrying out a re-procurement of this contract during 2018/19.

Skills and culture

It is important that decision makers are given the information that they need to make those decisions. Given that treasury and risk management can be a complex area; this should be accompanied by the availability of appropriate training. To address the availability of information, all Council, Cabinet and Committee reports include sections on both financial and risk implications. Where a decision is more financial in nature then these considerations will be detailed throughout the report. Table 1 details the key groups in relation to decision making and the training that has been made available. This strategy is required to disclose the steps that have been taken to provide training, and it is up to individual members of those groups to ensure that they take advantage of the opportunities offered.

Table 1

Group	**Reason for training**	**Training that has been made available**
Full Council (All Councillors)	Required to formally adopt this Strategy. Required to approve any capital purchase over £2.5m.	Annual training that provides an introduction to Local Authority funding and accounting. Training session provided by Link (the Council's treasury advisors) on risk and how it can be assessed, particularly in relation to capital investment.
Finance, Audit and Risk Committee	To review the Council's policies on Treasury, Capital and the Medium Term Financial Strategy. To monitor the effective development and operation of risk management.	Members of the Committee (and substitutes) are encouraged to complete a skills self-assessment. This allows the targeting of specific training. Regular reporting to the Committee on Capital, Risk and Treasury provides the opportunity to ask questions.
Senior Management Team (SMT)	Individual Service Directors will be responsible for putting forward proposals. Proposals will be reviewed by the Senior Management Team prior to taking through the Committee process. Members of SMT are likely to be involved in negotiating commercial deals.	Training session on risk, risk appetite and assessing risk. (*To happen*) Regular updates on the Council's funding and finances, including significant changes in regulations. Training on the core principles of the prudential framework. (*To happen*)

Part 1- Capital Spend

Current Capital Assets

As at 31s March 2018, a summary of the capital assets owned by the Council is shown in table 2 below. A full list can be found in Appendix (tbc).

Table 2

Asset Type	Asset	Reason for ownership	Value (£000)
Service			

Table 3 shows the capital expenditure that has been incurred during the year, or is forecast to be spent in the remainder of the year:

Table 3

Asset Type	Asset	Reason for purchase	Value (£000)
Service			

Capitalisation Policy:

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classed as Property, Plant and Equipment.

Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) or is below the de-minimis level, is charged as an expense when it is incurred.

The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

For the assets that the Council owns (or plans to purchase in the year) that are **not** for service delivery, the security, liquidity and yield in relation to these have been considered. For these assets it is up to the Council to determine how it balances these, and this will depend on its risk appetite. This analysis is shown in Table 4. In most cases, assets are grouped together by type.

Definitions:

Security- The possibility that other parties fail to pay amounts due to the Authority.

Liquidity- The possibility that the Authority may not have funds available to meet its commitments to make payments.

Yield- The income return on an investment, such as the interest received from holding a particular investment.

Table 4

Asset (or type of asset)	**Security**	**Liquidity**	**Yield**

Definitions:

Fair Value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

For each of the assets in table 3, there is also a requirement to carry out a fair value assessment that demonstrates that the underlying assets provide security for the capital invested. There is a further requirement to carry out an assessment of the risk of loss. This assessment generally relates to investments in commercial activities so includes items that may be less relevant to the majority of our assets. In total the risk assessment covers:

- Assessment of the market that competing in, including nature and level of competition, market and customer needs including how these will evolve over time, barriers to entry and exit, and ongoing investment required
- Use of external advisers and how the quality of these is monitored
- Whether credit ratings are used and how these are monitored
- Any other sources of information that are used

The assessments described above are shown in table 4. In most cases the assets are grouped together by type.

Table 5

Asset (or type of asset)	Fair value assessment	Assessment of the risk of loss

Under the 'Use of Capital Receipts Direction', the Council can treat certain specified revenue spend as capital. Further details of the direction are shown below. Where this direction is used, the spend is included in the capital forecasts in tables 5 and 7

Use of Capital Receipts Direction:

To be determined.

For all assets the future capital cost of maintaining those assets has been considered, and gives the following future capital spend requirements (table 6).

Table 6

Asset	Description of future capital expenditure	Forecast Capital Expenditure					
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29

The revenue maintenance of these assets has also been considered. This results in the following estimates that have been incorporated in to revenue budgets (table 7).

Table 7

Asset	Description of future revenue maintenance expenditure	Forecast Revenue Expenditure					
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29

New Capital Assets

There are also proposals for the following capital expenditure on new capital assets and expenditure on existing assets that is not related to capital maintenance (table 8).

Table 8

Asset	**Reason for capital expenditure**	**Forecast Capital Expenditure**					
		2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25 to 2028/29**

Below is an estimate of the total capital expenditure to be incurred in the years 2019/20 to 2023/24. This is based on tables 6 and 8, with full details in Appendix (tbc). This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

Prudential Indicator 1: Estimate of total capital expenditure to be incurred in years 2019/20 to 2023/24

Year	**£m**
2019/20	
2020/21	
2021/22	
2022/23	
2023/24	

Where this proposed expenditure does not relate to service delivery, the security, liquidity and yield in relation to this spend has been considered (table 9).

Table 9

Asset (or type of asset)	Security	Liquidity	Yield

For these assets, table 10, also details an assessment of the risk of loss. This covers the same factors that have been detailed previously. Where relevant, assets have been grouped together.

Table 10

Asset (or type of asset)	Assessment of the risk of loss

Part 2- Capital balances, receipts and the Capital Financing Requirement (CFR)

Capital Funding

The Council forecasts the following additions to its capital receipts over the next 5 years (table 11).

Table 11

Asset to be disposed of	Reason for disposal	Forecast Capital Receipt					
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29

The above timing and values are an estimate only. Actual timings will depend on market conditions and time taken for planning permission to be granted (where sales values are subject to planning). The Council will seek to maximise the sales values it can achieve.

As a result of planned expenditure in 2018/19 and future years, the Council forecasts the following use of funding for capital (table 12).

Table 12

Funding Source	Brought forward (at 31/3/18)	Forecast expenditure and funding sources						
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
Capital Expenditure								
Less: Set-aside receipts used								
Less: Capital receipts used								
Less: Grant funding used								
Less: S106 receipts used								
Less: Funding from revenue								
Borrowing requirement								

Definitions:

Capital receipts- money received from the sale of surplus assets.

Set-aside receipts- previously money generated from the sale of surplus assets was not defined as capital receipt. The residual funding that the Council has (which is mainly from the sale of its housing stock to North Herts Homes) is treated as a set-aside receipt. In essence these are treated in the same way as capital receipts.

The borrowing requirement is the balancing item. It is also known as the Capital Financing Requirement (CFR). This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

Prudential Indicator 2: Capital Financing Requirement

Year	£m
As at 31st March 2018 (actual)	
As at 31st March 2019 (forecast)	
As at 31st March 2020 (forecast)	
As at 31st March 2021 (forecast)	
As at 31st March 2022 (forecast)	
As at 31st March 2023 (forecast)	
As at 31st March 2023 (forecast)	
As at 31st March 2024 (forecast)	

Where the Council has a Capital Financing Requirement (i.e. the borrowing requirement is positive) then it:

- Must make a charge to revenue for a Minimum Revenue Provision.
- Can choose whether to borrow internally or externally.

Part 3- Borrowing Strategy and Minimum Revenue Provision (MRP)

Borrowing strategy

Definitions:

Internal Borrowing- Even when the Council has no capital reserves, it can borrow internally against its revenue balances and reserves. This uses the cash that is available and is different to funding capital from revenue. The Council is still required to have a Minimum Revenue Provision, but does not incur any external interest costs. Interest income from investing the revenue balances and reserves would be lost.

External Borrowing- Borrowing from a third party (e.g. Public Works Loans Board, a Local Authority or a financial institution). Interest costs would be incurred, as well as having to make a Minimum Revenue Provision.

In order to determine whether to borrow internally or externally, the Council must consider the level of revenue reserves and provisions that it has, and when it expects that these will be spent. Forecasts of the revenue budget give the following estimates (table 13).

Table 13

Revenue balance	**Brought forward (at 31/3/18)**	**Forecast balance at year end**						
		2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25 to 2028/29**
General Fund								
Add back MRP								
Revenue Reserves								
S106 balances								
Provisions								
Debt repayment								
Total								

MRP is added back as it is not an outflow of cash and can be used for internal borrowing. The cash outflow happens when the borrowing is repaid.

As well as the availability of revenue funding, the Council also needs to consider the advantages and disadvantages of external borrowing. Interest rates are still at very low levels and are only expected to go up, which will increase the cost of external borrowing in the future. It may also be possible to generate higher returns from investing revenue reserves than the interest costs that would be saved. However this has to be balanced against the certainty of interest costs that will be incurred as soon as borrowing is taken out. There is also a need for the Council to retain a certain buffer of revenue reserves as cash to manage the peaks and troughs in its cash balances. Whilst the Council can borrow for short-term cash-flow needs, this can become expensive. Whatever strategy is adopted, it should be prudent.

Based on the various factors, it is considered that the balance between new internal and external borrowing as shown in table 14 should be adopted. This is due to (to be determined).

Table 14

	Brought forward (at 31/3/18)	Forecast amount of borrowing in year							Carried forward (at 31/3/29)
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29	
Total borrowing requirement									
Made up of:									
Internal borrowing									
External borrowing									

The brought forward borrowing total is made up of historic borrowing that it is not cost effective to pay off. This is because the interest that would be payable over the course of the remaining loan has to be paid upfront instead.

Definitions:

Operational Boundary: This is the limit beyond which external debt is not normally expected to exceed.

Authorised Limit: This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Prudential Indicator 3: External Debt

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
As at 31st March 2018 (actual)					
As at 31st March 2019 (forecast)					
As at 31st March 2020 (forecast)					
As at 31st March 2021 (forecast)					
As at 31st March 2022 (forecast)					
As at 31st March 2023 (forecast)					
As at 31st March 2024 (forecast)					

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing (table 15). The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken. This is reflected in the indicators set out as Treasury Indicator 4 below.

Definitions:

Refinancing Risk: The risk that if all borrowing becomes due for repayment at the same time that this will be at a time when the costs out taking out new borrowing (refinancing) are very high.

Table 15

Loan Type	Start date	Duration (years)	Maturity date	Interest Rate (actual or forecast) (%)	Annual interest cost (£k)

Treasury Indicator 4: Maturity Structure of Fixed Interest Rate Borrowing

Maturity period	Lower %	Upper %
Under 12 months		
12 months to 2 years		
2 years to 5 years		
5 years to 10 years		
10 years to 20 years		
20 years to 30 years		
30 years and above		

The Council does not place any restrictions on where it can borrow from. This is because the Council will hold the money and therefore there is not a risk around the security of the funds. In practice any borrowing is likely to come from the Public Works Loan Board, UK banks, UK building societies and other Local Authorities. All borrowing will be denominated in GBP Sterling. The decision on any borrowing will be made by the Chief Finance Officer, and reflect the advice of the Council's treasury advisers.

The Council can enter in to borrowing arrangements at both fixed and variable rates. Variable rate borrowing has a greater risk and so therefore Treasury Indicator 5 limits the amount of borrowing that can be at a variable rate. To aid administration and monitoring, the limits are shown as £ values but are based on percentages of the Operational Boundary. Borrowing at fixed rates can be up to 100% (inclusive) of the Boundary, and variable rate borrowing can be up to 30% of the Boundary.

Definitions:

Fixed Rate: The rate of interest is set at the point the borrowing is taken out and remains at the same percentage rate for the full term of the loan.

Variable Rate: The rate of interest varies during the term of the loan and usually tracks prescribed indicator rate (e.g. Bank of England base rate)

Treasury Indicator 5: Fixed and Variable Borrowing Rate Exposure

Year	Operational Boundary £m	Limit on Fixed Rate borrowing £m	Limit on Variable Rate borrowing £m
2019/20			
2020/21			
2021/22			
2022/23			
2023/24			

There is a requirement for the Council to consider the proportionality of the income that it generates from its non-service (investment) assets and how this compares to any borrowing that is linked to those assets. Current and planned investment assets were detailed in table 3 and table 8. Treasury indicator 6 shows the capital value and expected income from these assets, alongside any borrowing that is attached to those assets and the expected cost of that borrowing.

Treasury Indicator 6: Income from investment assets and the costs of associated borrowing

Year	Capital value of investment assets £m	Expected annual income from investment assets £m	Loans linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2019/20				
2020/21				
2021/22				
2022/23				
2023/24				

<u>Borrowing in advance of need</u>

The Council would not borrow money at a low rate to try and reinvest that money to earn a higher interest rate, and profit from the margin between the two rates. However the extended definition now covers borrowing for capital investments where they are acquired purely to generate profit. The only instance where this could apply is the purchase of housing for renting at market rates. However this has been in the capital programme for a few years and is funded from capital receipts, so is not subject to this restriction.

If the Council did want to use borrowing to fund capital investment for a profit, then this can be done if it is fully explained as part of this capital strategy.

<u>Minimum Revenue Provision</u>

When the Council has a Capital Financing Requirement (CFR) it is required to make a charge to the General Fund (revenue budget) called a Minimum Revenue Provision (MRP). Subject to guidelines, the Council sets its MRP policy, which is detailed below:

Minimum Revenue Provision:

The Council is required to have a Minimum Revenue Provision (MRP) policy, and when required make charges to revenue in accordance with that policy.

Full policy to be determined.

Applying the MRP policy described above, this gives the following revenue costs (table 16).

Table 16

Borrowing					
Amount					
Start Date					
End Date					
Interest Rate					
Method for Calculating MRP					
Revenue cost of borrowing by year	2019/20				
	2020/21				
	2021/22				
	2022/23				
	2023/24				
	2024/25 to 2028/29				
	2029/30 and beyond				

There is a prudential indicator that compares the net cost of financing (i.e. borrowing costs less income generated from investments) with the net revenue budget of the Council. This will be looked at later in this document after considering investments and their forecast returns. However the indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

Treasury Indicator 7: Cost of borrowing (interest and MRP) as a % of the net revenue budget 2019/20 to 2023/24

Year	Estimated cost of borrowing (£m)	Forecast net revenue budget (£m)	Estimated cost of borrowing as a % of net revenue budget (%)
2019/20			
2020/21			
2021/22			
2022/23			
2023/24			

Part 4- Investment Strategy

Based on the assumptions above the following available investment balances are assumed. This includes a forecast of revenue reserves, capital reserves, capital financing requirement and external borrowing (table 17).

Table 17

Balances	**Brought forward (at 31/3/18)**	**Forecast balance at year end**					
		2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Revenue balances (including MRP added back)							
Capital Receipts							
Less: Capital Financing Requirement							
Add: External Borrowing taken out							
Less: Borrowing repayments							
Total forecast of available for investment							

The Council needs to consider the following in determining how long it will invest any surplus cash for:

- The period that any particular cash balance is available for. If a balance is expected to be available over a long period then it is possible to invest it over a long period.
- How much might be required to cover short term variations in cash. For example, it could be forecast that the cash at the start and end of the month will be the same. But if there is a need to pay out half that cash at the start of the month before getting an equivalent amount just before the end, then there is a need to plan.
- The risk of investing for longer periods as it increases the chance that the counterparty could have financial problems and therefore not pay back the principal invested and/ or the interest due.
- The risk of investing for longer periods as it could lead to a lost opportunity. If the investment is at a fixed rate and then there is a general rise in rates available (e.g. due to an unexpected Bank of England base rate rise) then it would not be possible to take advantage of the new improved rates until the investment matures.

Before considering where the Council will invest any surplus cash in treasury investments, it firstly needs to consider any loans that it may want to make for other purposes. A local authority can choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures. These loans can relate to service provision or to promote local economic growth. These loans may not seem prudent when considered purely in relation to security and liquidity. Table 18 details current and planned loans and shows the reasons for these loans, how their value is proportionate, the risk of loss and credit control arrangements that are in place.

Table 18

Loan	Amount (£m)	Reason for Loan	Proportionality of value	Expected Credit Loss model and credit control
Building Control				

When the Council invests its surplus cash it seeks to find reliable counterparties to ensure that the amount invested (and the interest earned) is returned. The following criteria are used to determine the list of counterparties:

- UK Local Authorities- as they are able to raise additional funds from taxation
- UK Government- including Gilts and Debt Management Account Deposit Facility (DMADF)
- UK Banks and Building Societies with a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater- as they have been subject to UK 'stress tests' and also have a high credit rating
- Part-nationalised UK banks- as they have been subject to UK 'stress tests' and the UK government has an increased interest in not allowing them to fail.
- The Council's own banker (Lloyds) that it uses for transactional purposes. Although if its credit rating falls below BBB then any balances will be kept to a minimum (i.e. for cashflow purposes only)
- Non-UK banks with a UK subsidiary that have a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater, and are subject to the same stress tests as UK banks
- Unrated UK Building Societies- as organisations have to pay to obtain a rating; most Building Societies do not get one. They do produce annual reports known as Pillar 3 reports, and these will be used to assess their credit worthiness. Furthermore the Council will only invest in Building Societies that have assets of at least £300m, which limits the potential exposure.
- Money Market funds that are AAA rated and denominated in Sterling.
- Property funds that hold property within the UK.

The Council will seek to appropriately diversify its investments across a range of types and counterparties. This means that if there were any security or liquidity issues with a particular type of investment or counterparty, the Council would still have access to the majority of its funds. The limits are initially based on a percentage of total funds, but are converted to actual values to make the administration of investments more efficient. The values are calculated by applying the percentages to the expected minimum investment balance (during 2019/20) and then rounded to the nearest £500k. If these limits are set too low then it limits the investment opportunities available and also increases the administration as there is then a need to find more places to invest available funds. The limits are shown in table 19 below.

Table 19

<table>
<tr><th>Investment Type</th><th>Maximum amount in that type of investment (£m)</th><th>Maximum amount in group (£m)</th><th>Maximum amount with any individual counterparty (£m)</th><th>Rationale and details</th></tr>
<tr><td>UK Local Authorities</td><td></td><td>n/a</td><td></td><td>10% with any one counterparty, 50% with Local Authorities in total</td></tr>
<tr><td>UK Banks</td><td></td><td></td><td></td><td>10% with any one counterparty, 15% with institutions in the same banking group, 50% with UK banks in total</td></tr>
<tr><td>UK Building Societies-assets of £300m to £1bn</td><td rowspan="2"></td><td rowspan="3"></td><td></td><td>10% with any one counterparty subject to maximum of £4m. Maximum of 50% with UK Building Societies.</td></tr>
<tr><td>UK Building Societies-assets over £1bn</td><td></td><td>10% with any one counterparty subject to maximum of £6m. Maximum of 50% with UK Building Societies.</td></tr>
<tr><td>UK Property Funds</td><td></td><td></td><td>25% in any one fund or combination of funds. Maximum of 50% in Property Funds and Building Societies combined.</td></tr>
<tr><td>UK Government</td><td>n/a</td><td>n/a</td><td></td><td>No limits, set at 100%</td></tr>
<tr><td>UK Money Market Funds</td><td></td><td></td><td></td><td>Tbc</td></tr>
</table>

The Council will primarily limit its liquidity risk by only investing money until it thinks it will next need it. On top of this it will also have a general limit on investments that are greater then 1 year (365 days). This limit is based on 40% of total investments, but is again reflected as an absolute value of £Xm, which is based on 40% of the expected minimum level of investments during the year. Investments with a set term of greater than 2 years will be subject to approval by the Chief Finance Officer, which will include a consideration of how much the investment will be as a percentage of total funds at the date it matures. It will be ensured that this is less than 40%. No investment term will exceed 5 years.

Investment funds (money market funds and property funds) do not have a set term and funds can be withdrawn at any time. Investment balances will be kept under review to ensure that they do not exceed the maximum amount set by this or subsequent treasury strategies. However there is no time limit on the period that funds can be held invested for. For property funds there are both up-front set up and exit costs. Furthermore, the capital value of these funds also fluctuates over time. So whilst in general it is possible to exit these funds at any time, there are likely to be more optimum times to do so. Therefore it is expected that the period of investment could exceed 5 years.

In general the Council will access treasury deals directly, rather than using a cash manager. In the current market, the Council is able to get the same (or very similar) rates as a cash manager and this therefore avoids the fees charged by the cash manager. However the Council will use a cash manager (Tradition) where it provides access to a better investment rate after accounting for the fees. As the actual investment will be with a counterparty, the Council will not set any limits on the number or value of deals that are accessed via Tradition.

There is some link between the interest rates that the Council can expect to achieve on its investments and the Bank of England base rate. Our treasury advisors (Link) have provided the following forecasts of base rates over the next 5 years. Using this and the investment limits above, we have estimated an average interest rate that the Council will achieve on its investments in each year.

Table 20

Year	Forecast of Bank of England Base Rate as at end of the year (%)	Forecast of average interest earned on investments (%)
2018/19		
2019/20		
2020/21		
2021/22		
2022/23		
2023/24		

Combining these average interest rates with expected balances, gives a forecast of the interest that will be earned in each year.

Table 21

	2019/20	2020/21	2021/22	2022/23	2023/24
Forecast of average balance available for investment (£m)					
Forecast of average interest earned on investments (%)					
Forecast of interest earned (£m)					

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

Prudential Indicator 8: Forecast of Financing Costs as a percentage of net revenue budget

Year	Cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing costs £m	Net Revenue Budget £m	Financing Costs as a % of Net Revenue Budget £m
2019/20					
2020/21					
2021/22					
2022/23					
2023/24					