Public Document Pack

Agenda

Contact Officer: Steve Culliford
Tel: 01235 422522
E-mail: steve.culliford@southandvale.gov.uk
Date: 2 February 2018
Website: www.southoxon.gov.uk

South Oxfordshire District Council
Listening Learning Leading

A MEETING OF THE

Cabinet

WILL BE HELD ON MONDAY 12 FEBRUARY 2018 AT 9.00 AM
MEETING ROOM 1, 135 EASTERN AVENUE, MILTON PARK, MILTON, OX14 4SB

Members of the Cabinet

Member	Portfolio
John Cotton (Chairman)	Leader of the Council and Cabinet member for partnership and insight
Felix Bloomfield	Cabinet member for planning
Elizabeth Gillespie	Cabinet member for housing and environment
Tony Harbour	Cabinet member for legal and democratic services, plus Didcot Garden Town
Lynn Lloyd	Cabinet member for community services
Jane Murphy	Deputy Leader of the Council and Cabinet member for finance
David Nimmo-Smith	Cabinet member for development and regeneration
Robert Simister	Cabinet member for corporate services

Alternative formats of this publication are available on request. These include large print, Braille, audio, email and easy read. For this or any other special requirements (such as access facilities) please contact the officer named on this agenda. Please give as much notice as possible before the meeting.

ITEMS TO BE CONSIDERED WITH THE PUBLIC PRESENT

Reports considered with the public present are available on the council's website.

1 Apologies for absence

To record apologies for absence.

2 Minutes (Pages 5 - 8)

To adopt and sign as a correct record the public minutes of the Cabinet meeting held on 7 December 2017.

3 Declaration of disclosable pecuniary interest

To receive any declarations of disclosable pecuniary interests in respect of items on the agenda for this meeting.

4 Urgent business and chairman's announcements

To receive notification of any matters which the chairman determines should be considered as urgent business and the special circumstances which have made the matters urgent, and to receive any announcements from the chairman.

5 Public participation

To receive any questions or statements from members of the public that have registered to speak.

CABINET DECISIONS

6 Didcot Garden Town, heat mapping and energy master-planning (Pages 9 - 14)

To consider the head of corporate services' report.

RECOMMENDATIONS TO COUNCIL

7 Housing and growth deal for Oxfordshire

Cabinet will discuss and recommend Council on whether to approve the Oxfordshire Housing and Growth Deal. If approved by the constituent authorities, delivery of the Deal will be overseen by the Oxfordshire Growth Board. The Growth Board is a statutory joint committee of the six Oxfordshire local authorities, the Local Enterprise Partnership and key strategic partners.

The Deal, as announced by Government in November 2017, provides £215 million of additional government funding for Oxfordshire, to deliver the key infrastructure required to underpin proposed housing development, and additional funds to increase the supply of affordable housing. This funding is comprised of £150 million for infrastructure, £60 million for affordable housing and £5 million capacity funding.

The additional funding will support Oxfordshire's ambition to plan for and support the delivery of up to 100,000 new homes across Oxfordshire between 2011 and 2031 to address the county's housing shortage and expected economic growth. This level of housing growth is that identified by the Oxfordshire Strategic Housing Market Assessment 2014, and is consistent with that planned for in existing and emerging

Oxfordshire Local Plans.

The Deal also includes a proposed package of planning “freedoms and flexibilities” to help Oxfordshire to plan collectively for the long-term, sustainable development of the county by offering some protection from the risk of unplanned speculative development for the duration of development of a joint spatial plan and early years of its implementation.

If approved by all constituent authorities, confirmation, in writing, will go to the Secretary of State along with submission of the agreed Delivery Plan.

The Deal brings with it additional funds for Oxfordshire. It is proposed that Oxfordshire County Council acts as the Accountable Body for the deal and provides relevant reports to the Growth Board on a quarterly basis.

Following decisions from Government expected on 5 and 7 February, the Housing and Growth Deal Delivery Plan as well as a full report for the Cabinet meeting will be published.

Cabinet is being asked to recommend Council to approve the Oxfordshire Housing and Growth Delivery Plan together with associated detailed recommendations to be set out in the report.

8 Treasury management mid-year monitoring 2017/18 (Pages 15 - 26)

To consider the head of finance’s report.

9 Treasury management strategy 2018/19 (Pages 27 - 54)

To consider the head of finance’s report.

10 Medium term financial strategy 2018/19 to 2022/23 (Pages 55 - 64)

To consider the head of finance’s report.

11 Revenue budget 2018/19 and capital programme to 2022/23

SEE SEPARATE PACK - APPENDIX E TO FOLLOW

To consider the head of finance’s report.

12 Exclusion of the Public

To consider whether to exclude members of the press and public from the meeting for the following item of business under Part 1 of Schedule 12A Section 100A(4) of the Local Government Act 1972 and as amended by the Local Government (Access to Information) (Variation) Order 2006 on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in paragraphs 1 to 7 Part 1 of Schedule 12A of the Act, and

(ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

ITEMS TO BE CONSIDERED WITH THE PUBLIC EXCLUDED

The council hereby gives notice that it intends to hold part of this Cabinet meeting in private to consider the following items for the reasons set out in the ‘exclusion of the public’ item above. These reports are not available on the council’s website.

13 Minutes (Pages 65 - 68)

To adopt and sign as a correct record the exempt minutes of the Cabinet meeting held on 7 December 2017.

14 Revenue budget 2018/19 and capital programme to 2022/23

To receive the exempt appendices to the head of finance’s report.

MARGARET REED

Head of Legal and Democratic Services

Minutes

OF A MEETING OF THE

Cabinet

HELD ON THURSDAY 7 DECEMBER 2017 AT 6.00 PM
MEETING ROOM 1, 135 EASTERN AVENUE, MILTON PARK, OX14 4SB

Present:
John Cotton (Chairman), Jane Murphy (Vice-Chairman), Felix Bloomfield, Elizabeth Gillespie, Tony Harbour, Lynn Lloyd, David Nimmo-Smith and Robert Simister

Officers:
Steve Culliford, Andrew Down, William Jacobs, Margaret Reed, Mark Stone and Christopher Wheeler

Also present:
Councillors Richard Pullen and David Turner, and David Fairall (Capita HR)

52 Minutes

RESOLVED: to approve the minutes of the Cabinet meetings held on 21 September, 5 October and 14 November 2017 as correct records and agree that the Chairman signs them as such.

53 Declaration of disclosable pecuniary interest

None

54 Urgent business and chairman's announcements

None

55 Public participation

None

56 Housing delivery strategy 2018 to 2028

Cabinet considered the report of the head of development, regeneration and housing. This proposed the adoption of a joint housing delivery strategy with Vale of White Horse District Council, to cover the period 2018 to 2028. The aim was for the council to take on the role of housing delivery enabler to assist in meeting housing targets.

Following a study of housing need and housing market trends, the strategy had been developed to assist housing developments to meet that need with minimal delay and to be of good quality. Cabinet believed the strategy would also help provide homes that were suitable for everyone, including enabling independent living, and provide homes that were affordable to those whose needs were not met by the market. The action plan would enable the council to be more in control over future housing developments in the district.

RESOLVED: to adopt the Joint Housing Delivery Strategy 2018–2028.

57 Council tax base

Cabinet considered the head of finance's report regarding the setting of the council tax base for 2018/19. Before the council tax could be set by Council, a calculation had to be made of the council tax base: an estimate of the taxable resources for the whole district and for each parish.

Cabinet noted how the council tax base was calculated and noted the assumptions made as part of that calculation. Cabinet was asked to recommend the council tax base to Council. Once set by Council in December, the council tax base would be notified to Oxfordshire County Council, the Police and Crime Commissioner, and each parish and town council to allow them to set their budgets for 2018/19.

RECOMMENDED to Council:

(a) That the report of the head of finance to Cabinet on 7 December 2017 for the calculation of the council's tax base and the calculation of the tax base for each parish area for 2018/19 be approved;

(b) That, in accordance with The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by South Oxfordshire District Council as its council tax base for the year 2018/19 be 56,163.3; and

(c) That, in accordance with The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by South Oxfordshire District Council as the council tax base for the year 2018/19 for each parish be the amount shown against the name of that parish in Appendix 1 of the report of the head of finance to Cabinet on 7 December 2017.

58 Exclusion of the Public

RESOLVED: to exclude members of the press and public from the meeting for the following items of business under Part 1 of Schedule 12A Section 100A(4) of the Local Government Act 1972 and as amended by the Local Government (Access to Information) (Variation) Order 2006 on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in paragraphs 1,2 and 3 of Part 1 of Schedule 12A of the Act, and

(ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

59 Exempt minutes

Cabinet adopted the exempt minutes from its meetings held on 21 September and 14 November 2017.

60 Five councils' corporate services contracts

Cabinet agreed changes to the Five Councils' Partnership's corporate services contracts.

61 Management restructure

Cabinet agreed a new management structure.

This page is intentionally left blank

Cabinet Report

Report of Head of Corporate Services

Author: Heather Saunders

Telephone: 01235 422126

Textphone: 08001 01235 422126

E-mail: heather.saunders@southandvale.gov.uk

Wards affected: Didcot West, Didcot North East, Sandford and the Wittenhams, Sutton Courtenay, Blewbury and Harwell

South Cabinet member responsible: Robert Simister

Tel: 01491 576352

E-mail: robert.simister@southoxon.gov.uk

Vale Cabinet member responsible: Michael Murray

Tel: 01235 834125

E-mail: mike.murray@causewayland.com

To: CABINET on 9 February 2018 (Vale), 12 February 2018 (South Oxfordshire)

Didcot Garden Town Heat Mapping and Masterplanning

Recommendations

(a) Cabinet is requested to approve an application to Government for £60,000 match funding for a detailed feasibility study into the technical and commercial viability of a North Didcot district heat network using waste heat from Didcot power station.

(b) Cabinet is requested to approve the allocation of £15,000 from South and £15,000 from Vale, from existing resources in the Didcot Garden Town and Energy budgets, to fund the councils' share of this work.

(c) Subject to the above government grant funding being approved and received, Cabinet is requested to agree that the Lead Cabinet Member can approve, via an ICMD, to; i) implement the proposed project ii) delegate authority to the head of housing development and regeneration to finalise terms of, and enter into, a drawdown contract for the appointment of AECOM to deliver the feasibility study under the Places for People Placemaking Hub framework approved at the Cabinet meetings of 5 October and 6 October, as permitted under the framework.

Purpose of Report

1. This report presents the results of the Didcot Garden Town Heat Mapping and Masterplanning project and seeks agreement for the next steps. Specifically, the report seeks approval to spend £90,000 (£30,000 from existing council resources and £60,000 from government match funding when received) on a detailed feasibility study for a district heat network in 'North Didcot' using waste heat from the Didcot Power Station.

Corporate Objectives

2. South: This project supports the corporate objective to unlock the potential of Didcot - masterplan the wider town centre to develop a transformational change programme that meets garden town objectives.

3. Vale: This project supports the corporate decision to realise the Didcot Garden Town Vision.

Background

4. This report presents an overview of the Didcot Garden Town Heat Mapping and Masterplanning project, which took place from January to September 2017.

5. The final project report including full technical and commercial analysis is available here and includes an Executive Summary for a non-technical audience.

What is a district heat network?

6. A district heat network is a network of buried pipes connecting a cluster of buildings that require heat. The network is linked to an 'energy centre' which supplies heat from one central source. An energy centre can be powered by different fuels and a variety of technologies, ranging from traditional sources such as gas powered combined heat and power (gas CHP) to innovative or renewable sources such as waste heat, hydrogen, solar, ground source heat and biomass.

7. District heat networks can have the following benefits:
   - reduce emissions of greenhouse gases
   - reduce pollution and improve air quality
   - increase fuel security (resilience)
   - improve affordability of fuel supply (reduce fuel poverty)
   - contribute to a low carbon or zero emissions strategy

8. District heat networks can also contribute to local authorities' targets and aspirations for regeneration, inward investment, local jobs and growth. A local council's role in developing district heat networks can range from sponsor, planning authority and relationship broker to heat customer or heat source provider.

Government aims and funding

9. The government has set ambitious climate change targets for 2050:
   - heat from domestic properties will need to be almost entirely zero carbon
   - industrial properties will need to reduce emissions by 70%

10. The Future of Heating (UK Government, 2012) identified district heat networks as a key element of the UK's cost effective delivery of greenhouse gas targets.

11. The government's Heat Networks Delivery Unit (HNDU) provides guidance on district heat networks and allocates funding support for feasibility studies and business case preparation.

12. In addition, the Heat Networks Infrastructure Project (HNIP) has £320m funding for capital investment to bridge any gaps that may exist between project costs and a commercially viable level of investment.

13. HNDU project support involves five stages:
    a. heat mapping - exploration, identification and prioritisation of heat network opportunities
    b. energy masterplanning - high-level technical and financial modelling
    c. feasibility study - technical feasibility, design, financial modelling and delivery approach
    d. detailed project development - more detailed technical and financial feasibility, and outline business case; contractual arrangements
    e. commercialisation, including some legal costs; tariff structuring; financial business case modelling

    To date, we have completed stages 1 and 2 for the Didcot Garden Town area of influence.

14. Note that a district heat network can use a low carbon fuel from the start, however this is not essential. A network can be put in place now with a conventional fuel. The fuel source in the energy centre can be substituted in the future with a low carbon alternative when the first plant reaches the end of its life. This would be much easier and cheaper than retrofitting many individual buildings and is a key reason why the Government is providing funding for heat networks.

Overview of study method

15. The heat mapping stage of our project (HNDU Stage 1) included:
    - data collection of heat demands from existing buildings and proposed developments
    - creation of GIS heat maps
    - review of potential sites and technologies with councils and key stakeholders
    - selection of sites and clusters of buildings showing a concentration of heat demands to take forward for energy masterplanning

16. The energy masterplanning (HNDU Stage 2) included:
    - site visits and further energy data analysis
    - preliminary network design and energy centre locations
    - consideration of appropriate low / zero carbon technologies
    - high level techno-economic modelling
    - sensitivity analysis
    - additional site-specific information from review with councils and key stakeholders
    - review of risks and key issues
    - recommended schemes and next steps

Preferred schemes

17. The Heat Mapping and Masterplanning report recommends the following four schemes:

Priority	Name	Description	Key reasoning
1=	North Didcot	Energy centre on RWE (power station) site. Potentially serving Didcot A, Giant and D-Tech enterprise zones and non-residential buildings at NE Didcot. Potential to extend into Milton Park. Water source heat pump technology connected to power station waste heat circuits and River Thames	Innovative scheme of potentially national significance. Good greenhouse gas emissions savings and customer energy cost savings. Strong engagement from RWE. Some network demand risk although opportunities to mitigate this with potential additional connections
1=	South Gateway	Commercial and residential development adjacent to Didcot Railway station. Gas-engine CHP technology	Small relatively simple network. Potentially valuable pilot scheme for the councils. Relatively low risk. Strong stakeholder engagement. Will deliver sustainability objectives at prime Garden Town site.
3	Harwell	Rutherford Appleton Laboratory existing buildings at Harwell Campus. Water source heat pump technology gathering waste heat from cooling towers circuit plus a gas engine CHP system	Reasonably innovative scheme, low demand risk, reasonable greenhouse gas emission savings, some good stakeholder engagement. Potential requirement for gap funding.
4	Culham	Gas engine CHP technology serving existing Culham Science Centre buildings and non-residential new developments.	High indicative financial performance and customer energy cost savings, although higher network demand risk and stakeholder risk. Low innovation

18. Further details on these schemes including financial assessment, site opportunities and constraints, proposed heat network routes, key assumptions, key risks and sensitivity analysis can be found in the full Heat Mapping and Energy Masterplanning report. Other potential schemes are also described that, at present, are considered to have lower priority.

Options

19. There are three potential options for action for each of the four top priority heat networks:
    1. do nothing
    2. present findings to key stakeholders
       rely on other parties to initiate and develop networks
       councils can promote and advise
    3. present findings to key stakeholders
       councils take a lead, in partnership with others, in pursuing more detailed feasibility work (HNDU stage 3) including technical and commercial viability

20. The Councils propose to take the following actions with respect to the four priority projects:

Priority Project 1=: North Didcot: Option 3

This is an exciting opportunity for a strategic and nationally significant project using power station waste heat. Although there has been good stakeholder engagement, there are many disparate interests in this proposal which will require leadership. The councils propose to take the lead and commission a detailed feasibility study to take this project forward. A bid for match funding from HNDU round seven was made in December 2017. A stakeholder presentation took place in November 2017. Accordingly, this paper is recommending that South and Vale Councils agree to provide the £30,000 match funding on a 50:50 basis, so that an application for £60,000 can be submitted to HNDU.

Priority Project 1=: South Gateway: Option 2

The councils will lead on the development of the South Gateway project as part of the Didcot Garden Town Delivery Plan. A heat network with a centralised energy centre will be specified as the preferred heating option in the South Gateway development brief. This is a small project that will ultimately be funded by whichever developer is given the task of developing South Gateway site, and it is not thought that further government-funded feasibility studies are required.

Priority Projects 3 and 4: Harwell and Culham: Option 2

The councils has disseminated the results and recommendations through presentations to Harwell Campus and Culham Science Centre. Due to the public ownership of these sites, we recommend that feasibility studies and project development for these two projects be led by the land owners or their developers with the council taking on a more advisory or partner role.

Financial Implications

21. The detailed feasibility study for the ‘North Didcot’ proposed district heat network will cost an estimated £90,000. This sum includes allowances for complex technical modelling for this innovative proposal, extensive stakeholder engagement, and a project management resource to co-ordinate activities. The Project Board will include RWE npower and other external stakeholders.

22. A bid for match funding of £60,000 from HNDU was made in December 2017. The councils’ contribution of £30,000 will be met from existing resources (Didcot Garden Town and Energy budgets).

Legal Implications

23. This project involves appointing a consultant to carry out detailed technical and commercial modelling. State Aid regulations are not believed to apply to this project as it does not involve the establishment of a heat network delivery vehicle, but legal advice will be sought on this once the detailed specification is available.

24. We expect to be procuring this work under an established framework agreement. A full procurement exercise is not likely to be necessary. Legal advice will be obtained in negotiating the draw down contract in order to protect the council’s interests.

Risks

25. This project does not commit the council to any further action beyond the feasibility study proposed. A more detailed study may show that the project is not viable or stakeholder interest may not be sufficient. Neither of these outcomes are thought to present any reputation risk to the council as the act of investigating these forward looking and innovative energy options will in itself put the Councils in a positive light.

26. The risk of the contract costing more than the budget will be mitigated by reviewing the specification in conjunction with the suppliers if necessary.

Public relations implications

27. We have had regular meetings with stakeholder organisations throughout the project.

28. The project will be of interest to residents and an opportunity for the council to highlight our work on viable environmental solutions to the business sector and other partners. Some may believe that the money spent on studies and eventual implementation may outweigh the positive impacts. This can be counteracted by highlighting the economic and environmental benefits, and the fact that the final cost of the projects is expected to be met by partners and developers.

Conclusion

29. This report provides an update on progress to date with the Didcot Garden Town Heat Mapping and Masterplanning project. It invites councillors to approve the expenditure to carry out further feasibility work.

Joint Audit and Governance Committee

Report of Head of Finance

Author: Rhona Bellis, Principal Accountant
Telephone: 01235 422497
Textphone: 18001 01235 422497
E-mail: rhona.bellis@southandvale.gov.uk

SODC cabinet member responsible: Councillor Jane Murphy
Telephone: **07970 932054**
E-mail: jane.murphy@southoxon.gov.uk

VWHDC cabinet member responsible: Councillor Robert Sharp
Telephone: **01367 710549**
E-mail: robert.sharp@whitehorsedc.gov.uk

To: **Joint Audit and Governance Committee; Cabinet; Council**

DATE: 29 Jan 18 by Joint Audit and Governance Committee
9 Feb 18 (V) / 12 Feb 18 (S) by Cabinet
14 Feb 18 (V) / 15 Feb 18 (S) by Council

Treasury management mid-year monitoring report 2017/18

Recommendations

That Joint Audit and Governance Committee:

(a) notes the treasury management mid-year monitoring report 2017/18, and
(b) is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

considers any comments from Joint Audit and Governance Committee and recommends council to approve the report.

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that each council's prudential indicators are reported to their respective council mid-year (ie: as at 30 September). The report provides details of the treasury activities for the first six months of 2017/18 and an update on the current economic conditions with a view to the remainder of the year.

Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

Background

3. The council's treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Code of Practice for Treasury Management requires a monitoring report to be provided mid-year to council. The report covers the treasury activity for the period 1 April 2017 to 30 September 2017.

4. The 2017/18 treasury management strategy was approved by each council in February 2017. This report summarises the treasury activity and performance for the first six months of 2017/18 against those prudential indicators and benchmarks set for the year. It also provides an opportunity to review and subsequently revise limits if required. Full council is required to approve this report and any amendments to the Treasury Management Strategy.

5. Link Asset Services are the councils' retained treasury advisors. Capita Asset Services was sold by Capita to Link Group during the early part of the year and the business has been rebranded. There are no implications for the councils in terms of service provision.

Treasury activity

6. The mid-year performance of the two councils is summarised in the tables below[1].

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	127,151	15,000	142,151	5,075	147,226
2	Budgeted investment income	789	311	1,100		
3	Actual investment income	1,350	312	1,662	218	1,880
4	surplus/(deficit) (3) - (2)	561	1	562		
5	Annualised rate of return	2.12%	4.16%	2.34%	8.59%	2.55%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	58,185	8,455	66,640
2	Budgeted investment income	190		
3	Actual investment income	279	287	566
4	surplus/(deficit) (3) - (2)	90		
5	Annualised rate of return	0.96%	6.79%	1.70%

[1] For property, the balance shown is the fair value of investment properties as at 31 March 2017.

7. The forecast outturn position as at September 2017, based on known investments and maturities and an estimate for future earnings is shown in the table below:

		South Oxfordshire District Council	Vale of White Horse District Council
	Annual budget as per MTFP	£2,201,300	£379,160
	Forecast outturn	£2,604,771	£393,280
	Variance against budget	£403,471	£14,120
	Borrowing	Nil	Nil

8. The Councils remain restricted regarding financial institutions meeting their investment criteria. When it is possible, investments will be placed with highly rated institutions for a longer duration with a view to increasing the weighted average maturity of the portfolio, but this has meant that overall there are less suitable counterparties available to the councils to deposit with.

9. **SODC**. The latest estimate is that income receivable on cash investments will be above budget by £403,471 by the end of the year. Cash balances have been higher than expected as a result of grant receipts relating to Didcot Garden Town and re-profiling of the capital programme due to delays in expenditure.

10. Officers monitor the performance of the unit trust holding on a regular basis. When the value reaches £14 million, a disposal of £2 million is made. During the first six months of 2017/18 the value of unit trusts has been just below the £14 million threshold and no disposals have been made.

11. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £14,120. This is due to higher than budgeted cash balances relating to grant funding from the EZ building foundations for growth that was received at the end of 2014/15 and has been invested pending disbursement, and the re-profiling of the capital programme as a result of delays in expenditure.

12. Following the TUPE transfer of accountancy staff to Capita in August 2016, a review of treasury management practice has commenced. The service is currently provided on a business as usual basis.

Performance measurement

13. A list of current investments as at 30 September is shown in Appendices A1 and A2. All investments were with approved counterparties. The average return on these investments is shown above in the table at paragraph 5. South has performed better than Vale because it holds more long term loans at higher rates and equities as a result of its larger investment base.

14. The councils' performance against benchmarks for the first six months of the year are detailed in Appendices A3 and A4. All benchmarks have been achieved except the CCLA benchmark which measures performance from the investment date rather than performance in the year. Performance for the year to date of 4.88% is higher that the short term benchmark of 4.58%.

Treasury management limits on activity

15. Each council is required by the Prudential Code to report on the limits set each year in their respective Treasury Management Strategies. The purpose of these limits is to

ensure that the activity of the treasury functions remain within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits for both councils are shown in appendices B1 and B2.

Debt activity during 2017/18

16. During the first six months of 2017/18 there has been no need for either of the councils to borrow. The s151 officer will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in appendices B1 and B2 provide the scope and flexibility for either of the councils to borrow in the short-term up to the maximum limits, if ever such a need arose within the cash flow management activities of the authority in order to achieve its service objectives.

Financial implications

17. Uncertainty following the referendum on EU membership in June 2016 remains. The depreciation of sterling has resulted in a rise in inflation (CPI) and this is predicted to remain above the two per cent target for some time. The Bank of England's Monetary Policy Committee increased interest rates by 0.25 per cent in November 2017 and has hinted that interest rates could rise further in 2018. Rates are not likely to reach pre-2008 levels for some considerable time (if at all).

Legal implications

18. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

Conclusion

19. This report provides details of the treasury management activities for the period 1 April 2017 to 30 September 2017 and the mid-year prudential indicators to each respective council.

20. Treasury activities at both councils have operated within the agreed parameters set out in their respective approved treasury management strategies.

21. This report also provides the monitoring information for joint audit and governance committee to fulfil its role of scrutinising treasury management activity at each council.

Background papers

- CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes (revised 2011)
- CIPFA Prudential Code for Capital Finance in Local Authorities (2011 edition)
- Various committee reports, principally:
  Treasury Management Investment Strategy 2017/18
  SODC – council 16 February 2017
  VWHDC – council 15 February 2017

Appendices

A1 – SODC List of investments as at 30 September 2017
A2 – VWHDC List of investments as at 30 September 2017
A3 – SODC Performance against benchmark
A4 – VWHDC Performance against benchmark
B1 – SODC Prudential Indicators
B2 – VWHDC Prudential Indicators
C1 – Note on Prudential Indicators

South Oxfordshire District Council

Investments as at 30 September 2017 Counterparty	Deposit type	Investment date	Maturity date	Investment duration in days	Principal	Rate
National Counties Building Society	Fixed	16/12/2016	16/10/2017	304	1,500,000	0.69%
Goldman Sachs International Bank	Fixed	21/12/2016	20/12/2017	364	2,000,000	0.78%
Progressive Building Society	Fixed	23/12/2016	23/10/2017	304	1,000,000	0.70%
Progressive Building Society	Fixed	03/01/2017	03/11/2017	304	2,000,000	0.66%
Goldman Sachs International Bank	Fixed	08/02/2017	07/02/2018	364	2,000,000	0.88%
National Counties Building Society	Fixed	15/02/2017	15/12/2017	303	1,500,000	0.70%
Principality Building Society	Fixed	13/03/2017	13/03/2018	365	2,000,000	0.77%
Goldman Sachs International Bank	Fixed	15/03/2017	14/03/2018	364	3,000,000	0.80%
Close Brothers	Fixed	30/03/2017	29/03/2018	364	1,000,000	0.80%
Progressive Building Society	Fixed	03/04/2017	03/04/2018	365	3,500,000	0.75%
Progressive Building Society	Fixed	03/04/2017	29/03/2018	360	1,000,000	0.75%
Goldman Sachs International Bank	Fixed	03/04/2017	03/04/2018	365	2,000,000	0.92%
National Counties Building Society	Fixed	03/04/2017	03/04/2018	365	2,500,000	0.77%
Skipton Building Society	Fixed	03/04/2017	03/04/2018	365	2,000,000	0.75%
Monmouthshire Building Society	Fixed	04/04/2017	15/03/2018	345	2,000,000	0.75%
Monmouthshire Building Society	Fixed	12/04/2017	11/04/2018	364	1,000,000	0.75%
Newcastle Building Society	Fixed	27/04/2017	27/04/2018	365	2,000,000	0.78%
Newcastle Building Society	Fixed	02/05/2017	02/05/2018	365	2,000,000	0.77%
National Counties Building Society	Fixed	04/05/2017	04/05/2018	365	1,000,000	0.77%
Newcastle Building Society	Fixed	05/05/2017	04/05/2018	364	2,000,000	0.77%
Close Brothers	Fixed	08/05/2017	09/04/2018	336	2,000,000	0.80%
National Counties Building Society	Fixed	15/05/2017	15/02/2018	276	2,000,000	0.66%
Monmouthshire Building Society	Fixed	15/05/2017	15/02/2018	276	2,000,000	0.66%
National Counties Building Society	Fixed	23/05/2017	22/05/2018	364	1,500,000	0.80%
Monmouthshire Building Society	Fixed	23/05/2017	22/05/2018	364	1,500,000	0.78%
Principality Building Society	Fixed	30/05/2017	29/05/2018	364	2,000,000	0.78%
Nottingham Building Society	Fixed	06/06/2017	15/02/2018	254	2,000,000	0.60%
Monmouthshire Building Society	Fixed	06/06/2017	15/03/2018	282	2,000,000	0.66%
Principality Building Society	Fixed	12/06/2017	11/06/2018	364	3,000,000	0.77%
Nottingham Building Society	Fixed	12/06/2017	11/06/2018	364	1,000,000	0.76%
Goldman Sachs International Bank	Fixed	26/06/2017	25/06/2018	364	2,000,000	0.78%
Newcastle Building Society	Fixed	29/06/2017	28/06/2018	364	1,500,000	0.78%
Principality Building Society	Fixed	03/07/2017	02/07/2018	364	4,000,000	0.77%
Principality Building Society	Fixed	10/07/2017	09/07/2018	364	2,000,000	0.75%
Nottingham Building Society	Fixed	11/07/2017	10/07/2018	364	2,000,000	0.81%
Progressive Building Society	Fixed	17/07/2017	16/07/2018	364	2,500,000	0.78%
Skipton Building Society	Fixed	19/07/2017	18/07/2018	364	2,000,000	0.77%
Nottingham Building Society	Fixed	19/07/2017	16/10/2017	89	3,000,000	0.35%
Goldman Sachs International Bank	Fixed	24/07/2017	23/07/2018	364	2,000,000	0.91%
Newcastle Building Society	Fixed	30/08/2017	30/08/2018	365	2,000,000	0.80%
Newcastle Building Society	Fixed	31/08/2017	30/08/2018	364	2,000,000	0.80%
Goldman Sachs International Bank	Fixed	28/09/2017	27/09/2018	364	2,000,000	0.97%
Santander	Call *				417,756	0.15%
Royal Bank of Scotland	Call *				2,329	0.15%
Royal Bank of Scotland	Call *				95,101	0.15%
Goldman Sachs	MMF *				5,060,000	0.17%
Blackrock	MMF *				690,000	0.13%
Total short term cash investments (<1 yr duration)					**89,265,186**	
Kingston upon Hull City Council	Fixed	19/08/2013	19/08/2020	2557	3,500,000	2.70%
Kingston upon Hull City Council	Fixed	19/08/2013	19/08/2020	2557	1,500,000	2.70%
Kingston upon Hull City Council	Fixed	15/01/2014	15/01/2021	2557	2,000,000	2.50%
Royal Bank of Scotland	Fixed	20/01/2015	22/01/2018	1098	2,000,000	1.50%
Royal Bank of Scotland	Fixed	16/02/2015	18/02/2019	1463	2,000,000	1.20%
Close Brothers	Fixed	26/11/2015	27/11/2017	732	3,000,000	1.60%
Royal Bank of Scotland	Fixed	08/04/2016	08/04/2019	1095	3,000,000	1.31%
Bury MBC	Fixed	18/07/2016	19/07/2021	1827	5,000,000	1.50%
Lloyds Bank	Fixed	10/03/2017	13/03/2018	368	2,000,000	0.90%
Close Brothers	Fixed	03/04/2017	03/04/2019	730	2,000,000	1.10%
Total long-term cash investments (>1 yr duration)					**26,000,000**	
CCLA	Property				6,591,099	Variable
Legal & General Equities	Unit Trust				13,851,988	Variable
Total Investments					**135,708,273**	

** Rates are variable. Returns shown represent prevailing rates at end Q2 2017.*
Above figures exclude balance outstanding from Kaupthing Singer and Friedlander and SOHA loan

Vale of White Horse District Council

Investments as at 30 September 2017						
Counterparty	**Deposit type**	**Investment date**	**Maturity date**	**Total investment duration in days**	**Principal**	**Rate**
Goldman Sachs International Bank	Fixed	31/10/2016	30/10/2017	364	2,000,000	0.90%
Newcastle Building Society	Fixed	08/12/2016	06/12/2017	363	1,000,000	0.80%
Goldman Sachs International Bank	Fixed	23/03/2017	19/12/2017	271	1,500,000	0.80%
National Counties Building Society	Fixed	29/03/2017	15/01/2018	292	2,000,000	0.70%
Progressive Building Society	Fixed	04/05/2017	15/02/2018	287	2,000,000	0.67%
Newcastle Building Society	Fixed	12/05/2017	15/11/2017	187	2,000,000	0.57%
Monmouthshire Building Society	Fixed	17/05/2017	19/03/2018	306	1,000,000	0.69%
National Counties Building Society	Fixed	22/05/2017	19/02/2018	273	1,000,000	0.68%
Principality Building Society	Fixed	02/06/2017	27/11/2017	178	1,000,000	0.49%
Places for People Homes (HA)	Fixed	19/06/2017	18/06/2018	364	2,000,000	1.25%
Santander UK	Fixed	15/06/2017	15/12/2017	183	3,000,000	0.70%
Cumberland Building Society	Fixed	26/06/2017	04/10/2017	100	1,000,000	0.37%
Goldman Sachs International Bank	Fixed	30/06/2017	29/06/2018	364	2,000,000	0.94%
Skipton Building Society	Fixed	28/06/2017	27/06/2018	364	5,000,000	0.77%
Nottingham Building Society	Fixed	28/06/2017	04/01/2018	190	2,000,000	0.51%
Principality Building Society	Fixed	05/07/2017	19/03/2018	257	2,000,000	0.60%
Monmouthshire Building Society	Fixed	19/07/2017	15/03/2018	239	2,000,000	0.62%
Close Brothers Ltd	Fixed	29/09/2017	28/09/2018	364	2,000,000	0.90%
Cumberland Building Society	Fixed	31/07/2017	30/10/2017	91	2,000,000	0.36%
Nottingham Building Society	Fixed	01/08/2017	15/02/2018	198	1,500,000	0.54%
Goldman Sachs International Bank	Fixed	19/09/2017	18/09/2018	364	2,000,000	0.99%
LGIM	MMF *				7,000,000	0.19%
Goldman Sachs	MMF *				3,200,000	0.13%
Total short term cash investments (<1 yr duration)					**50,200,000**	
Kingston Upon Hull City Council	Fixed	19/08/2013	19/08/2020	2,557	2,000,000	2.70%
Kingston Upon Hull City Council	Fixed	15/01/2014	15/01/2021	2,557	2,000,000	2.50%
Close Brothers	Fixed	16/11/2015	16/11/2017	731	2,000,000	1.60%
Places for People Homes (HA)	Fixed	15/06/2016	15/06/2018	730	2,000,000	1.70%
Total long-term cash investments (>1 yr duration)					**8,000,000**	
CCLA	Property				2,636,676	variable
Total Investments					**60,836,676**	

* *Rates are variable. Returns shown represent prevailing rates at end Q2 2017.*

South Oxfordshire District Council

Investment returns achieved against benchmark	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.18%	2.12%	1.94%	3 Month LIBID
Equities	1.50%	5.12%	3.62%	FTSE All Shares Index

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance			
Performance to 31 March 2017	1 year	3 years	5 years
The local authorities property fund	3.07%	10.55%	9.81%
Benchmark - IPD property index	4.58%	10.69%	8.81%

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.

- South invested £5 million into the fund and in the first six months of 2017/18, achieved a return of 4.88 per cent calculated as a ratio of income over the market value held as at 30 September 2017. This is not the same basis upon which the performance of the fund above is calculated.

Vale of White Horse District Council

Investment returns achieved against benchmark				
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Internally managed - Bank & Building Society deposits	0.18%	0.96%	0.78%	3 month LIBID

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance			
Performance to 31 March 2017	1 year	3 years	5 years
The local authorities property fund	3.07%	10.55%	9.81%
Benchmark - IPD property index	4.58%	10.69%	8.81%

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.

- Vale invested £2 million into the fund and in the first six months of 2017/18, achieved a return of 4.88 per cent calculated as a ratio of income over the market value held as at 30 September 2017. This is not the same basis upon which the performance of the fund above is calculated.

South Oxfordshire District Council

Prudential indicators as at 30th September 2017			
		2017/18	Actual as at
		Original Estimate	30-Sep
Debt		**£m**	**£m**
Authorised limit for external debt			
Borrowing		30	0
Other long term liabilities		0	0
		30	**0**
Operational boundary for external debt			
Borrowing		25	0
Other long term liabilities		0	0
		25	**0**
Interest rate exposures			
Maximum fixed rate borrowing		100%	**0**
Maximum variable rate borrowing		100%	**0**
Investments			
Interest rate exposures			
Limits on fixed interest rates		100%	80%
Limits on variable interest rates		50	6
Principal sums invested > 364 days			
Upper limit for principal sums invested >364 days		70	26

Vale of White Horse District Council

Prudential indicators as at 30th September 2017			
		2017/18	Actual as at
		Original estimate	30-Sep
		£m	£m
Authorised limit for external debt			
Borrowing		30	0
Other long term liabilities		5	0
		35	**0**
Operational boundary for external debt			
Borrowing		25	0
Other long term liabilities		0	0
		25	**0**
Interest rate exposures			
Maximum fixed rate borrowing		100%	**0**
Maximum variable rate borrowing		100%	**0**
Investments			
Interest rate exposures			
Limits on fixed interest rates		100%	79%
Limits on variable interest rates		50	10
Principal sums invested > 364 days			
Upper limit for principal sums invested >364 days		40	8

<u>Prudential indicators – explanatory note</u>

Debt

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

Interest rate exposures

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

Investments

Interest rate exposure

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

Principal sums invested

This indicator sets a limit on the level of investments that can be made for more than 364 days.

Report to:
Joint Audit and Governance Committee
Cabinet
Council

Report of Head of Finance

Author: Rhona Bellis

Tel: 01235 422497

E-mail: Rhona.bellis@southandvale.gov.uk

Cabinet Member responsible: Jane Murphy

Tel: 07970 932054

E-mail: jane.murphy@southoxon.gov.uk

To: Joint Audit & Governance Committee	29 January 2018
To: Cabinet	12 February 2018
To: Council	15 February 2018

Treasury management strategy 2018/19

Recommendations:

The Joint Audit and Governance Committee recommends to Cabinet and Council:

1. To approve the treasury management strategy set out in appendix A to this report;
2. To approve the prudential indicators and treasury limits for the period 2018/19 to 2020/21 as set out in table 2, appendix A;
3. To approve the annual investment strategy set out in appendix A (paragraphs 18 to 58) and the lending criteria detailed in table 5.

That Cabinet:

Considers any comments from committee and recommends Council to approve the report.

Purpose of report

1. This report presents the council's Treasury Management Strategy (TMS) for 2018/19. This sets out how the council's treasury service will support capital investment decisions, and how the treasury management operates day to day. It

sets out the limitations on treasury management activity governed by the prudential indicators, within which the council's treasury function must operate. The strategy is included as appendix A to the report. This report includes the three elements required by legislation as follows:

- The **prudential indicators** required by the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The **annual investment strategy**. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments. This strategy is in accordance with the DCLG investment guidance and forms part of the treasury management strategy (appendix A, paragraphs 18-58);

- A statutory duty to approve a **minimum revenue provision** policy statement (appendix A, paragraphs 50-54).

It is a requirement of the CIPFA Treasury Management Code 2011 that this report is approved by full Council on an annual basis.

Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

Background

3. 'Treasury management' is the planning of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

4. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and the long term cash flow plans to ensure that the council can meet its capital spending obligations.

5. Treasury investments are effectively what the council does with its cash resources before it is spent on the provision of services and the funding of the capital programme. All expenditure of a capital nature is managed through the council's capital programme and is not covered by this report. The council's property investment policy no longer forms part of this report.

6. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

7. The council's treasury management strategy 2018/19 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, it is, by its very nature and due to the need for compliance with associated

guidance, technical in parts. A glossary of terms in appendix F should aid understanding of some technical terms used in the report.

8. CIPFA is currently conducting a review of the “Prudential Code” and the “Treasury Management Code of Practice”. This review is particularly focused on ‘non-treasury’ investments, especially the purchase of investment property and other commercial activities that aim to generate income; but may require external borrowing (or the use of existing cash balances) to raise the cash to finance such activities.

9. The finalised codes are not expected until January 2018 and therefore the treasury management strategy set out in appendix A to this report, has been prepared in accordance with the current codes of practice.

10. To ensure the council’s treasury management strategy is compliant with the new CIPFA Codes, a revised treasury management strategy will produced during 2018 if required. This will be subject to the same process of approvals as the current strategy.

Recommended changes to the treasury management strategy

11. Council approved the 2017/18 treasury management strategy on 16 February 2017. The proposed strategy for 2018/19 includes the changes detailed below, which cabinet is asked to recommend to council:

Investment type addition

Adding another investment type will allow the council wider choice of investment in the future as the pool of low risk counterparties reduces. There are no plans currently to invest in this vehicle.

- To add Non-UCITS Retail Schemes (NURS) to the strategy with a limit of £5 million

Maturity period adjustment

This change is proposed to reflect more closely the risk of these investments in the period over which investments can be made.

- To change the maximum maturity period from 1 year to 2 years for institutions with a minimum rating of F1/A-

- To change the maximum maturity period from 2 years to 1 year for institutions with a minimum rating of F1/A

Maximum ratio of total investment adjustment

Over the last year, the council’s treasury balances have exceeded the historical levels upon which the treasury limits were based. This situation is expected to continue into the future and to ensure that the council’s treasury limits now reflect the organisations needs the following changes are proposed:

- To increase the maximum investment total with building societies with assets over £1,000 million to 30 per cent

- To increase the maximum investment total with building societies with assets over £3,000 million to 40 per cent

- To increase the maximum investment total with building societies with assets over £5,000 million to 50 per cent

Financial implications and risk assessment

12. This report and all associated policies and strategies set out the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to help protect the council's finances by managing its risk exposure.

13. In the last few years investment income has fallen due to lower interest rates. In the medium term interest rates are expected to remain low. The Bank of England's Monetary Policy Committee increased interest rates by 0.25 per cent in November 2017 and has hinted that rates could rise further in 2018. Any rate rises are expected to be slow and gradual given the continued uncertainty in the economy.

14. The table below gives an estimate of the investment income achievable for the next five years.

Table 1: Medium term investment income forecast

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Forecast as at December 2017	2,940	2,955	2,882	2,732	2,518

The 2018/19 budget setting report and medium term financial plan will take into account the latest projections of anticipated investment income.

Legal implications

15. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

16. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 (the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

Conclusion

17. This report provides details of the treasury management strategy and the annual investment strategy for 2018/19 which are appended to this report, together with the prudential indicators for approval to council. These documents provide the parameters within which officers will operate the council's treasury management function.

Background papers

- CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes (revised 2011)
- CLG Local Government Investment Guidance under Section 15(1)(a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.
- Treasury Management Investment Strategy 2017/18 (cabinet 1 February 2017, council 16 February 2017)

Appendices

Appendix A	Treasury Management Strategy 2018/19
Appendix B	Economic conditions and prospects for interest rates
Appendix C	Risk and performance benchmarking
Appendix D	Explanation of prudential indicators
Appendix E	TMP1
Appendix F	Glossary of terms

Treasury Management Strategy 2018/19

Introduction

1. The Local Government Act 2003 and supporting regulations require the council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable.
2. The Act requires the council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
3. The strategy in respect of the following aspects of the treasury management function is based on treasury officers' views on interest rates, supplemented with market forecasts provided by the council's treasury advisor, Link Asset Services. The strategy covers:
    - Prudential and treasury indicators in force that will limit the treasury risk and activities of the council;
    - Current treasury position
    - Borrowing strategy
    - Policy on borrowing in advance of need;
    - Investment strategy;
    - Counterparty selection and limits;
    - Policy on use of external service providers;
    - Minimum Revenue Provision (MRP) statement;
    - Treasury management scheme of delegation and Section 151 role.
4. It is a statutory requirement under Section 32 of the Local Government Finance Act 1992, for the council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level where any increases in charges to revenue from:
    - Increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
    - Any increases in running costs from new capital projects are identified and limited to a level which is affordable.

A key requirement of this report is to explain the risks, and the management of those risks, associated with providing the treasury service. Legislation requires that as a minimum two further treasury reports are provided: a mid-year monitoring report and an outturn report after the year-end that reports on actual activity for the year.

Treasury Limits for 2018/19 to 2020/21

5. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the "Affordable Borrowing Limit". The Authorised Limit is the legislative limit specified in the Act.
6. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and in particular, that the impact upon its future council tax is 'acceptable'.
7. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.
8. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits are set out in table 2 below.

Cabinet is asked to recommend council to approve the limits:

Table 2: Prudential Indicators	**2017/18 approved**	**2018/19**	**2019/20**	**2020/21**
	£m	**£m**	**£m**	**£m**
Debt				
Authorised limit for external debt				
Borrowing	30	30	30	30
Other long term liabilities	0	0	0	0
	30	**30**	**30**	**30**
Operational boundary for external debt				
Borrowing	25	25	25	25
Other long term liabilities	0	0	0	0
	25	**25**	**25**	**25**
Interest rate exposures				
Maximum fixed rate borrowing	100%	100%	100%	100%
Maximum variable rate borrowing	100%	100%	100%	100%
Investments	**£m**	**£m**	**£m**	**£m**
Interest rate exposures				
Limits on fixed interest rates	100%	100%	100%	100%
Limits on variable interest rates	50	50	50	50
Prinicipal sums invested > 364 days				
Upper limit for principal sums invested > 364 days	70	70	70	70

Current position

9. The maturity structure of the council's investments at 31 October 2017 was as follows:

Table 3: Maturity structure of investments

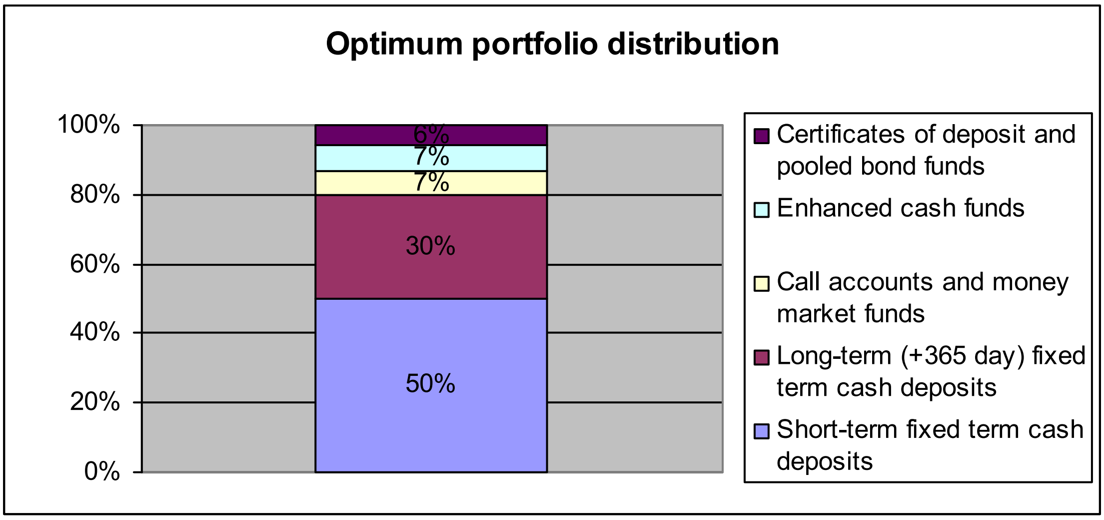
	Classification of investment at deal date £'000	% holding	Classification as at 31/10/17 £'000	% holding
Call	1,342	1%	1,342	1%
Money market funds	17,690	13%	17,690	12%
Less than 6 months	0	0%	46,500	32%
6 months to 1 year	81,500	58%	40,000	28%
1 - 2 years	7,000	5%	7,000	5%
2 - 3 years	5,000	4%	5,000	3%
3 - 7 years	12,000	9%	7,000	5%
CCLA - property fund	5,000	4%	6,351	4%
Equities	10,000	7%	14,108	10%
	139,532	100%	144,991	100%

Note: £145 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.

The figure for total investments shown above excludes the £15 million 20-year loan to SOHA made in 2013/14 and the balance outstanding with Kaupthing Singer & Friedlander (KSF).

10. The council holds as above, 86 per cent of its investments in the form of cash deposits, 73 per cent is invested for fixed terms with a fixed investment return and 13 per cent on call accounts, with the remainder held in non-cash deposits. Typically the council restricts lending activity to UK institutions and the highest rated counterparties.

11. The council's considerations for investment will remain security, liquidity and yield – in that order. Within this framework a possible optimum portfolio distribution of cash investments could be considered as follows:



Note: This represents officer interpretation of a diversified portfolio and from time to time actual holdings will vary from this significantly.

Investment performance for the year to 31 October 2017.

12. The council's budgeted investment return for 2017/18 is £2.2 million, and the actual interest earned to date is shown as follows:

Table 4: Investment interest earned to date and outturn estimate				
		Interest Earned		
Investment type	Annual Budget 2017/18 £000	Actual to date 2017/18 £000	Annual Forecast 2017/18 £000	Forecast Variation 2017/18 £000
Position at end October 2017	2,201	1,859	2,621	420
Total interest	**2,201**	**1,859**	**2,621**	**420**

Borrowing Strategy 2018/19

13. The annual treasury management strategy has to set out details of the council's borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council has no external debt and in general, the council will borrow for one of two purposes:

- to support cash flow in the short-term;
- to fund capital investment over the medium to long term.

Any borrowing undertaken will be within the scope of the boundaries given in the prudential indicators shown in table 2. Which allow the council to borrow up to a maximum of £30 million, if such a need arose. This also allows short-term borrowing for the cash flow management activities of the authority.

14. The existing capital programme can be financed from internal resources. Additional expenditure committed in the future can be financed from internal resources (either by use of reserves or internal borrowing) or externally (through prudential borrowing). Any decision on borrowing will be taken by the Head of Finance based on the optimum cost to the council.

15. Any borrowing for capital financing purposes will be assessed by the head of finance to be prudent, sustainable and affordable.

16. This strategy allows the head of finance to determine the most suitable repayment terms of any borrowing to demonstrate affordability and sustainability in the medium term financial plan if required. As a general rule, the term of any borrowing will not be longer than the expected life of the capital asset being created.

Policy on borrowing in advance of need

17. 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 approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the council can ensure the security of such funds. In determining if any borrowing will be undertaken in advance of need, the council will:

- Consider the impact of borrowing in advance on investment cash balances and the exposure to counterparty risk. Any risk associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting process.

- Consider the optimum point to borrow in advance of need to obtain the most beneficial rates on any loan raised to minimise the cost of borrowing over the duration of the loan.

Annual investment strategy

18. The primary aim of the council's investment strategy is to maintain the security and liquidity of its investments, yield or return on the investment will be a secondary consideration, subject to prudent security and liquidity. The council will ensure:

    - It has sufficient liquidity in its investments to cover cash flow. For this purpose it has set out parameters for determining the maximum periods for which funds may prudently be committed.

    - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

19. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods. This aim is to provide a more even and predictable investment return in the medium term.

20. The council's head of finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 5) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

Investment types

21. The types of investment that the council can use are summarised below. These are split under the headings of specified and non-specified in accordance with the statutory guidance.

Specified investment instruments (maximum period 1 year)

22. These are sterling investments of not more than one year maturity, or those where the council has the right to be repaid within 12 months if it wishes. These would include sterling investments with:

    - UK government Debt Management Agency Deposit Facility (DMADF)
    - UK government – treasury stock (Gilts) with less than one year to maturity
    - Supranational bonds of less than one year's duration
    - Deposits with UK local authorities
    - Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
    - Deposits with banks and building societies (minimum F1/A- rated)

- Certificates of deposits issued by banks and building societies (minimum rating as above)

Non-specified investment instruments

23. These are any other type of investment (i.e. investments not defined as specified, above). Examples of non-specified investments include any sterling investments with:

- Supranational bonds of 1 to 10 years maturity
- UK treasury stock (Gilts) with a maturity of 1 to 10 years
- Unrated building societies (minimum asset value £1 billion)
- Bank and building society cash deposits up to 5 years (minimum F1/A-)
- Deposits with UK local authorities up to 25 years
- Corporate bonds
- Pooled property, pooled bond funds and UK pooled equity funds
- Non-UCITS Retail Schemes (NURS)

Other non-specified investment instruments

24. Other non-specified investment instruments include:

- Fixed term deposits with variable rate and variable maturities
- Investment in Housing Associations

Approach to investing

25. The council currently holds approximately £128 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is incurred and not replaced by capital receipts. In addition the council has funds which are available on a temporary basis to invest. These are held pending payment over to another body such as precept payments and council tax. The amount can vary between £5 million and £15 million throughout the year and should only be invested short term (under one year). Investments will be made with reference to known cash flow requirements (liquidity).

26. While rates remain historically low the council will aim to keep investments relatively short term, but will continue to look for opportunities to fix lending in the medium term with highly rated institutions when possible for core cash balances. The aim is to increase the weighted average maturity of the portfolio in order to reduce maturity risk.

27. Officers will continue to implement an operational strategy which provides tight controls on the investments placed. Where possible, opportunities to spread the investment risk over different types of instruments will be considered.

28. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it will make use of the UK Government deposit account (DMADF).

29. The council has the authority to lend to other local authorities at market rates. Current investments include £7 million with Kingston Upon Hull City Council and £5 million placed with Bury Metropolitan Borough Council. Whilst investments with other

local authorities are considered to be supported by central government, officers will consider the financial viability and sustainability of the individual local authority before any funds are advanced.

30. Further investment in property funds will be looked at in more detail for consideration. In 2013/14 the council invested £5 million in the Churches Charities and Local Authorities pooled property investment fund (CCLA).

31. Money market funds are mainly used for liquidity; they also provide security and spread portfolio risk. Officers will always monitor the council's exposure to these funds in order to manage our security risk.

32. Currently the council does not make use of an external fund manager. Whilst there are presently no plans for this situation to change, this will continue to be kept under review.

33. Bond funds can be used to diversify the portfolio, whilst maintaining an element of liquidity and security. These will be considered and reviewed as an investment possibility to spread portfolio risk.

34. One option to offer diversification in the council's investment portfolio would be to make use of enhanced cash funds. Possible use of such funds would be intended for longer term investments than with traditional money market funds (i.e. for possible investment durations of 3 – 6 months). Investments placed with enhanced cash funds are callable and so offer the option to be withdrawn before maturity, although this is likely to have an adverse impact on the return on the investment.

35. Unlike money market funds, enhanced cash funds have a variable net asset value (VNAV). This means the assets are 'marked to market' (re-valued to current market value) on a daily basis and the fund unit price adjusted accordingly. Under this calculation basis the unit price fluctuates and could, therefore, be higher or lower than the original investment when it is redeemed. Any use of enhanced cash funds would be restricted to the high quality counterparty credit criteria as set out in Table 5 below.

36. The council does not currently make use of certificates of deposit. Consideration will be given to their use to assist diversification of the investment portfolio. Certificates of deposit have the same level of ranking and security as ordinary fixed term deposits but have the option of being traded before maturity. Certificates of deposit are bought and sold on the stock market and their price can go up or down prior to their redemption date. If held to maturity the investment will return their issue value. The council would only normally look to enter into such investments on a held to maturity basis.

Counterparty selection

37. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Link Asset Services provides the council with credit rating updates from all three ratings agencies – Standard & Poor's, Fitch and Moodys.

38. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine the creditworthy counterparties. This is

because adopting this approach could leave the council with too few counterparties for the strategy to be workable. Instead, counterparty investment limits will be set by reference to all of the assigned ratings.

39. Where counterparties fail to meet the minimum required criteria (Table 5 below) they will be omitted from the counterparty list. Any rating changes and rating watches (notification of a rating change) are provided to officers almost immediately after they occur and this information is considered before any deal is entered into. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.

40. Additional requirements under the CIPFA Treasury Management Code require the council to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.

41. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with the agreement of the cabinet member responsible for finance.

Country and sector considerations

42. The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AAA from Fitch Ratings.

Counterparty limits

43. In the normal course of the council's cash flow operations it is expected that both specified and non-specified investments will be used for the control of liquidity as both categories allow for short term investments. The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will be used where the council's liquidity requirements are safeguarded. The council will lend to institutions that meet the following criteria:

Table 5: Counterparty limits				
Counterparty	Minimum Fitch Rating (or equivalent)	Counterparty Limit £m	Max. maturity period	Maximum % of total investment
Bank - part nationalised UK	UK Sovereign	£20m	4 years	100%
Building societies - assets > £1,000m	n/a	£10m	1 year	30%
Building societies - assets > £3,000m	n/a	£12m	1 year	40%
Building societies - assets > £5,000m	n/a	£15m	1 year	50%
Corporate bonds	F1+/A+	£5m	variable	10%
Enhanced cash funds (VNAV)	AAA	£20m	variable	50%
Non-UCITS Retail Scheme (NURS)	n/a	£5m	variable	15%
Housing associations	F1+/A+	£15m	variable	15%
Institutions with a minimum rating	F1+/AA-	£15m	4 years	25%
Institutions with a minimum rating	F1+/A+	£15m	3 years	25%
Institutions with a minimum rating	F1/A-	£15m	2 years	30%
Institutions with a minimum rating	F1/A	£15m	1 year	50%
Local Authorities / parish councils	n/a	£15m	25 years	50%
Managed bond fund	F1/A-	£15m	1 year	40%
Money Market Fund (CNAV)	AAA	£20m	liquid	100%
Pooled bond fund	F1+/A+	£5m	variable	10%
Pooled property fund	n/a	£10m	variable	15%
Property related investments	n/a	£30m	variable	80%
Supranationals	AAA	£10m	10 years	40%
UK equities	n/a	£10m	variable	20%
UK government - gilts	UK Sovereign	£15m	15 years	10%
UK government - treasury bills	UK Sovereign	£15m	15 years	10%
UK Govt & DMADF	UK Sovereign	no limit	n/a	100%

44. The criteria for choosing counterparties provides a sound approach to investment. Whilst councillors are asked to approve the criteria in table 5, under exceptional market conditions the head of finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

Fund managers

45. The council does not currently employ any external fund managers. However in the event of such an appointment, appointees will comply with this and subsequent treasury strategies. This strategy empowers the Section 151 officer to appoint such an external manager to manage a proportion of the council's investment portfolio if this is advantageous. Situations in which this might be advantageous include benchmarking the performance of the treasury team; benefiting from the often extensive credit risk and economic modelling resources of external fund managers and resources necessary to hold liquid instruments for trading.

Risk and performance benchmarks

46. A requirement of the Code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will

be reported, with an explanation in the mid-year or annual report to audit and corporate governance committee. Detailed information for the assessment of risk is shown in appendix C.

47. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward looking prudential indicators. The indicators used to assess the performance of the treasury function are:

Table 6: investment benchmarks	
Investment category	Benchmark
Bank & building society deposits - non managed	3 Month LIBID
Equities	FTSE all shares index
Property related investments	IPD balanced Property Unit Trust Index

Performance against these indicators will be reported in both the annual mid-year and year-end treasury reports.

Policy on the use of treasury management advisers

48. The council has a joint contract for treasury management advisors with Vale of White Horse District Council. Link Asset Services (was Capita Asset Services) provides a range of services, which include:

- technical support on treasury matters, capital finance issues, statutory reports;
- economic forecasts and interest rate analysis;
- credit ratings/market information service involving the three main credit rating agencies;
- strategic advice including a review of the investment and borrowing strategies and policy documents.

49. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and up to date market information.

Minimum revenue provision (MRP) policy statement 2018/19

50. MRP is the amount out of revenues set aside each year as a provision for debt i.e. the provision in respect of capital expenditure financed by borrowing.

51. The council is required by regulation to approve an annual MRP policy before the start of the year to which it relates. Any in-year changes must also be submitted to the council for approval.

52. Currently, the council’s MRP liability is nil. This will remain the case unless new capital expenditure is financed by external or internal borrowing.

53. The council has no outstanding capital liability and therefore the MRP for 2018/19 is nil. This will remain the case unless new capital expenditure is financed by borrowing.

54. The council's current capital programme can be financed from internal resources. However, new capital growth ideas may require external borrowing. If borrowing is undertaken then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly. The Head of Finance will determine the most appropriate repayment method, term of borrowing and duration of borrowing. As a general illustration, Table 7 below gives an example of the annual revenue costs associated with borrowing an amount of £2.5 million over a 50 year period, based on the current district tax base of 56,163 Band D equivalents:

Table 7: Example MRP and interest calculation

Loan amount	£2,500,000	
Loan duration	50 years	
PWLB interest rate	2.45 per cent	
2018/19 Taxbase	56,163	
	£	£ per band D
MRP element	50,000	0.89
Annual interest cost	61,250	1.09
Total	111,250	1.98

Councillor and officer training

55. The requirement for increased councillor 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 councillors and officers. In compliance with the current CIPFA Code, the council has provided treasury management training to councillors in January 2017. Further training will be provided as soon as practical during 2018/19 as expected changes in the CIPFA code become available. Other training is available on request.

Treasury management scheme of delegation and the role of the section 151 officer

56. The treasury management scheme of delegation and the role of the Section 151 officer is as follows:

I. **Council**
   - Receiving and approval of reports on treasury management policies, practices and activities;
   - Approval of annual strategy.

II. **Joint audit and governance Committee / Cabinet**
   - Approval of amendments to the organisations adopted clauses, treasury management policy statements and treasury management practices;
   - Receiving and reviewing monitoring reports and acting on recommendations;
   - Ensuring effective scrutiny of the treasury management function.

III. **Section 151 Officer / Head of Finance**
- Recommending clauses, treasury management policies/practices for approval, review and monitoring compliance;
- Submitting regular treasury management information reports;
- Submitting budgets and budget variations;
- Reviewing the performance of the treasury management function;
- Ensuring adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit and liaising with external audit;
- Approving the selection of external service providers and agreeing terms of appointment.

Summary

57. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can manage the council's cash flows and invest any surplus funds.

58. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

Economic conditions and interest rate forecasts

1. In order to put the investment strategy into context it is necessary to consider the strength of the UK economy, external factors in the financial markets and their impact on interest rate forecasts.

UK economy

2. Since the second quarter of 2013 the UK has reported rising levels of GDP. However, following the result of the EU referendum, growth has become volatile. Indicators suggest we will still see growth thanks to low unemployment and household spending, but the rate of growth will be slower than previously forecast.

3. Consumer Price Inflation is expected to peak very soon at 3.2 per cent. Forward indications are that rates of inflation will fall once the devaluation effect of sterling starts to fall out of the 12 month statistics.

4. Uncertainty over Brexit is weighing heavy on economic data. Little agreement over trade terms from 2019 is creating a lack of confidence with UK firms and is holding back investment.

5. Bank rate rose by 0.25 per cent in November 2017 to 0.50 per cent. Forward guidance from the Bank of England states that they expect rates to rise twice more in the next three years, to reach 1.00 per cent by 2020.

Eurozone economy

6. Growth has slowed during quarter three of 2017 in the Eurozone, however growth remains at an annualised rate of 3 per cent. Consumer confidence is rising, especially in Germany. The Euro has slipped in value against the dollar due to expectations that there will be an interest rate rise in the US. Rates in Europe are not expected to change.

Link Asset Services forward view

7. Economic forecasting continues to be difficult given the number of external influences affecting the UK. Key areas of risk include:

   - Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows;
   - UK economic growth and inflation;
   - Rising protectionism under President Trump;
   - A resurgence of the Eurozone sovereign debt crisis;
   - Weak capitalization of some European banks;
   - A sharp Chinese downturn and its impact on emerging market countries.

Prospects for interest rates

8. The bank base rate is forecast to remain unchanged at 0.50 per cent, rising in Q4 in 2018. Link Asset Service’s central view for bank rate forecasts is shown below:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank of England base rate	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00
PWLB rates										
5 year borrowing	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10
10 year borrowing	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70
25 year borrowing	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40
50 year borrowing	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.

1. These benchmarks are targets and so could be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.
2. **Yield**. Benchmarks are used to assess the performance of investments. The local measures of yield are as shown in Appendix A to this report.

3. **Liquidity**. Liquidity is defined as the council "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice).

4. In respect of this area the, the council shall seek to:
    - maintain a minimal balance held in the council's main bank account at the close of each working day. Transfers to the councils call accounts, MMF and investments will be arranged in order to achieve this, while maintaining access to adequate working capital at short notice.
    - use the authorised bank overdraft facility or short term borrowing where there is clear business case for doing so, to cover working capital requirements at short notice
5. **Security of the investments**. In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the last 20-30 years.

Average defaults for differing periods of investment

Long term rating	1 year	2 years	3 years	4 years	5 years
AA	0.01%	0.02%	0.08%	0.16%	0.23%
A	0.07%	0.19%	0.36%	0.55%	0.78%
BBB	0.15%	0.46%	0.82%	1.26%	1.73%

6. The council's minimum long term rating criteria is currently "A-" meaning the average expectation of default for a two year investment in a counterparty with an "A" long term rating would be 0.19 per cent of the total investment (e.g. for a £1 million investment the average loss would be £1,900). **This is only an average** - any specific counterparty loss could potentially be higher or lower. These figures act as a proxy benchmark for risk across the portfolio.

Explanation of Prudential Indicators

Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Authorised limit for external debt – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cash flow.

Upper limit for fixed and variable interest rate exposure – these limits allow the council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can be prudently invested for periods in excess of a year.

Treasury Management Practice (TMP) 1 – credit and counterparty risk management

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below.

The key aim 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-Sectoral Guidance Notes. In accordance with the code, the head of finance has produced its treasury management practices (TMPs). This part, TMP1(1), covering investment counterparty policy requires approval each year.

The key requirements of both the Code and the guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- the strategy guidelines for decision making on investments, particularly non-specified investments.
- the principles to be used to determine the maximum periods for which funds can be committed.
- specified investments the council will use. These are high security (i.e. have a high credit rating, although this is defined by the council, and no guidelines are given), 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:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A-)
- Certificates of deposits issued by banks and building societies (minimum rating as above)

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 as stated in table 5 to this report.

Non-specified investments

These are any other type of investment (i.e. not defined or specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are as set out in table 5.

GLOSSARY OF TERMS

Authorised Limit	The maximum amount of external debt at any one time in the financial year.
Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)

CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2 per cent. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
Enhanced Cash Funds	A pooled investment fund. Longer dated investment than a MMF and, unlike a MMF, enhanced cash funds have variable asset value. Assets are marked to market on a daily basis and the unit prices vary accordingly. Investments can be withdrawn on a notice basis (the length of which depends on the fund) although such funds would typically be used for investments of 3 to 6 month duration.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.

Gilt	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Mark to Market Accounting	Accounting of the basis of the “fair value” of an asset or liability, based on the current market price. As a result, values will change with market conditions.
Minimum Revenue Provision	This is a prudent sum set aside each year to offset the principal repayment of any loan to smooth the impact on the local taxpayer.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however a MMF relies on loans to companies rather than share holdings.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1 per cent of a central target of 2.5 per cent in two years’ time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Non-UCITS Retail Scheme (NURS)	Undertakings for collective investments are funds authorised to be sold in the UK that are required to meet standards set by the UK services regulator. An example is property funds.
Operational Boundary	The most likely, prudent but not worst case scenario of external debt at any one time.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.

Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

Cabinet report

Report of Head of Finance

Author: William Jacobs

Tel: 01235 422480

E-mail: William.jacobs@southandvale.gov.uk

Cabinet Member responsible: Jane Murphy

Tel: 07970 932054

E-mail: jane.murphy@southandvale.gov.uk

12 February 2018 to CABINET

15 February 2018 to COUNCIL

Medium Term Financial Strategy 2018/19 – 2022/23

Recommendation to Council:

To recommend Council to approve the Medium Term Financial Strategy for 2018/19 – 2022/23 as attached to the report of the head of finance to the Cabinet meeting of 12 February 2018.

Purpose of report

1. This report asks Cabinet to consider and recommend Council approve the medium term financial strategy for 2018/19 – 2022/23.

Strategic objectives

2. Financial planning within a medium-term strategy helps maintain our strong financial position in a structured way while directing resources to priority areas.

3. Sound financial management is central to the ongoing delivery of all the council's functions and a key part of our governance framework.

Background

4. The medium term financial strategy (MTFS) is reviewed and approved annually. The document sets a stable financial framework within which the council operates and as such should not require significant amendment on an annual basis.

5. Council approved the previous MTFS on 16 February 2017.

The Medium Term Financial Strategy

6. The MTFS for 2018/19 – 2022/23 is attached as appendix one. It sets out the fundamental financial objectives of the council and the principles to be followed in managing the council's finances to achieve its objectives. It helps inform our treasury management strategy that governs how we invest money held in balances.

7. In addition to objectives and principles, a narrative on significant current issues is included in each section.

8. The significant current issues have been updated. No changes to the principles or objectives of the MTFS are being proposed.

9. The council's medium term financial plan (MTFP) projects the council's income and expenditure across the next five years. The MTFP under consideration as part of 2018/19 budget setting process projects a significant gap opening up between the council's expenditure and income in future years as a result of a real terms reduction in government funding. To close the gap the council needs to find ways in which to reduce its expenditure and/or increase its income. The council holds sufficient balances to allow it to address this matter in an orderly way. This does not mean the council can indefinitely put off the actions it will need to take. In the light of this the council will need to carry out a thorough review its MTFS during 2018/19.

10. In advance of that review the amount of money that can be used to support capital or revenue expenditure that produces a return of certainty has been increased from £30 million to £35 million (appendix one, paragraph 4 (a)) to allow additional non-treasury investment in 2018/19.

Financial implications

11. The MTFS provides a framework within which we will prepare annual spending plans. The implications of working within this framework are set out in the strategy. In essence, it creates a rigorous discipline to follow, but one which helps ensure sound financial management.

Legal implications

12. The MTFS will help ensure council sets its budget and council tax requirements and approves its annual statement of accounts within legislative requirements and deadlines.

Conclusion

13. A key target of the council is to keep our share of council tax as low as possible whilst continuing to deliver high quality services and the proposed MTFS 2018/19 – 2022/23 will help achieve this. The MTFS identifies the objectives the council will pursue, and the principles it will follow, in managing its finances. Real term reductions in government funding will require a thorough review of the MTFS during 2018/19

Background Papers

- MTFS 2017/18 – 2021/22 Council 17 February 2017.

APPENDIX ONE

MEDIUM TERM FINANCIAL STRATEGY 2018/19 – 2022/23

1. Section one - revenue budget

1.1 Objectives:

a) To set a balanced revenue budget (prepared in accordance with proper accounting practice), i.e. the estimated income in the year (including that from the Government, the council tax, business rates and use of revenue balances) that will equal the estimated expenditure.

b) To set a revenue budget requirement that increases by no more than inflation each year, except where central government places new responsibilities on the council.

c) To ensure the council's five year revenue spending plans match its medium term financial strategy objectives with regards its balances (see section four - balances below).

d) To direct resources to meet council priorities.

e) To continually strive to deliver services in an efficient and effective way.

1.2 In order to achieve our objectives we will follow these principles:

a) We will ensure expenditure budgets are realistic estimates of necessary spend in the year.

b) We will set income budgets at a prudent level, i.e. income will not be anticipated for budget purposes if there is reasonable doubt over its receipt.

c) We will review and determine annually the allocation of interest to fund either revenue or capital expenditure or retain in specific reserves, as part of the budget setting process.

d) We will use our reserves to:

- fund revenue expenditure that supports the council's strategic objectives
- help reduce the impact of reductions in government funding on service provision.

e) The head of finance will set an adequate contingency budget sum.

f) We will look for efficiency savings first as a way of meeting unavoidable additional costs or bids for additional expenditure.

g) We will review fees and charges each year to assess if additional income can be generated from them.

h) Bids for additional money will have to be justified by reference to our strategic objectives and priorities.

1.3 Significant current issues:

a) The banking crisis and subsequent Government austerity measures have resulted in a number of adverse pressures on the council's budget:

- Government funding is being significantly reduced over the medium term;

- Interest rates have fallen significantly and remained low; reducing the amount of money we can earn to support revenue spending.

b) The localisation of business rates offers financial opportunities and financial risks which are difficult to quantify as they depend on the future actions of third parties (i.e. all businesses within the district). The government has announced it hopes that by 2020 the scheme will be extended so that 100 per cent of business rates will be retained by local government. This will impact on the council but to what extent is not known as the new scheme is currently being designed.

c) New homes bonus rewards the council for net new homes built in the area. Changes to the distribution of NHB may adversely impact on the council.

During the budget setting process the above issues will be considered and prudent forecasts will be built in to budgets where precise estimates are not possible.

2. Section two - capital budget

2.1 Objectives:

a) To set a capital expenditure programme that can be financed from our own resources.

b) We will borrow (internally or externally) to fund capital expenditure where it is financially advantageous to do so.

c) To direct capital resources to meet council priorities.

2.2 In order to achieve our objectives we will follow these principles:

a) We will plan capital expenditure over a rolling five year period.

b) Each year we will calculate the amount of uncommitted resources available to fund capital projects not yet included in the approved or provisional capital programme.

c) Except in exceptional situations we will not allocate or use funds invested for the long term to pay for capital expenditure.

d) In planning our capital expenditure we will only take into account future capital receipts and investment income where there is a high degree of certainty about their receipt.

e) We will undertake periodic reviews of our assets to determine if they are still needed to meet our strategic objectives, and dispose of assets that are not required or do not generate a competitive investment return.

f) Bids for additional money will have to be justified by reference to our strategic objectives and corporate priorities.

g) All housing capital receipts otherwise subject to pooling arrangements will be allocated for reinvestment in affordable housing (public or private) or regeneration projects (within the local authority area).

2.3 Significant current issues:

a) The council may have to consider using its own capital resources to fund schemes where government funding is withdrawn or reduced.

b) Income from the sale of the council's assets will fall (as this is a finite resource).

3. Section three - partnership working

3.1 Objective:

a) To take account of the financial implications of significant partnerships in which we are involved.

3.2 In order to achieve this objective we will:

a) Assess the financial implications of our commitments to partnership work, including on entering, during and at the exit from partnerships.

b) Take these into account in setting annual budgets and in preparing the medium term financial plan (MTFP).[1]

c) Monitor and report on our financial commitments as a result of partnership working.

3.3 Significant current issues:

a) The council has entered a five councils' partnership which involves a range of services being delivered by Capita and Vinci. Close attention will need to be paid to ensure the true costs of these contracts are correctly reflected in the council's financial planning and reporting reports.

4. Section four - balances

4.1 Objectives:

a) To identify the levels of balances to be held in the short, medium and long term and to review these each year.

b) To identify balances to be used for revenue and capital expenditure.

---

[1] The medium term financial plan (MTFP) is a high level, five-year budget projection that is reported as part of the budget setting report to cabinet and council.

c) To identify balances that can be invested for the short, medium and long term in accordance with our treasury management strategy to maximise investment returns.

d) To maintain an uncommitted revenue balance of at least £0.75 million to meet unforeseen or exceptional expenditure; the head of finance will review the amount each year.

e) To ensure the earned interest used to support the revenue account is set at a sustainable level.

4.2 In order to achieve our objectives:

a) We invest £50 million for the long term. All investments will generate an annual return of certainty. Up to £35 million can be used to support capital or revenue expenditure that generates a return of certainty. This MTFS definition of an investment is wider than the treasury management definition. MTFS capital investments will not be shown on the council's balance sheet as usable balances. MTFS capital investments are likely to be particularly illiquid or may be unrealisable. All MTFS investments must be accounted for through the council's capital programme and each will be classified as a MTFS investment at the point at which Council is asked to approve the scheme for inclusion in the capital programme. These investments will provide regular income which we will use to:

- support revenue expenditure
- provide grants
- fund capital projects.

We will review the allocation of income for these purposes each year as part of the budget process.

b) We will hold up to £25 million as medium term balances. We will hold these in a mixture of short and medium term investments and use them to provide regular income for the same purposes as long term investments.

c) Short term balances will be held for the following purposes:

i) to provide cash as and when required for imminent capital works. This includes:

- the capital programme
- developer contributions and s106 receipts held to fund future expenditure
- capital grants to fund future expenditure.

These balances are invested in the short-term in line with expected programme expenditure cash flows. Up to £20 million is held for these purposes.

ii) in earmarked revenue reserves, including:

- money set aside to fund planned revenue expenditure

- money held in unallocated reserves, such as the enabling fund. We invest these balances short-term.

iii) for working capital purposes that relate only to the timing of income and expenditure flows and are held to manage the cash flow. These balances are not a reserve held on the balance sheet. The amount will vary between nil and £20 million, and are invested short term in line with known cash flow streams.

d) When we propose any significant changes to the amounts of balances held, the structure of balances (e.g. the split between long, medium and short-term) or how the income earned on balances is used, the head of finance will separately report on the implications of these changes if made outside the budget setting process.

e) We will include estimated future levels of balances in the MTFP.

f) In setting its annual budget Council will agree the level of earned interest estimated to be used to support revenue spending.

4.3 Significant current issues:

a) Further changes in the NHB scheme may reduce again the amounts the council earns from the scheme and this would have an impact on the balances the council holds.

5. Section five - Prudential indicators

5.1 Objectives:

a) To ensure that our capital investment plans are affordable, prudent and sustainable.

b) To ensure that our capital investment plans are consistent with and support local strategic planning, local asset management and follow proper option appraisal.

c) To set the capital expenditure indicators to meet the objectives of the capital and revenue budget objectives outlined above.

5.2 In order to achieve our objectives we will follow these principles:

a) The prudential indicators will be set through the annual budget process and before 1 April each year.

b) The indicators will have regard to:

- affordability
- prudence and sustainability
- value for money
- stewardship of assets
- service objectives

- practicality.

c) We will set the treasury management indicators in compliance with the CIPFA Code of Practice for Treasury Management in Public Services.

d) We will review and monitor performance against all forward-looking indicators, and report any significant deviations or take appropriate action, if required

5.3 Significant current issues:

a) None.

6. Section six – budget planning and monitoring

6.1 Objectives:

a) To produce annual budgets and the MTFP in a timely and accurate manner and linked to corporate and service planning.

b) To produce budgets that are in accordance with the MTFS.

c) To monitor income and expenditure against budgets in a timely manner to highlight where under or overspending is occurring, in order to take corrective action at the earliest opportunity.

d) To monitor progress in achieving efficiency savings.

e) To monitor performance against prudential indicators.

6.2 In order to achieve our objectives we will:

a) Prepare a detailed budget timetable linked to corporate and service planning, and allocate resources accordingly.

b) Incorporate into the timetable scrutiny of the budgets by both officers and members.

c) Produce budget monitoring reports as at the end of September and the end of December in each financial year.

d) Distribute detailed budget monitoring statements to heads of service within one week of the end of the month.

e) Issue budget monitoring reports with the members' information sheet (In focus).

f) Review prudential indicators at least quarterly.

6.3 Significant current issues:

a) Annual revenue expenditure exceeds annual review income with the gap funded from reserves. Although the council holds sufficient reserves to support this situation across the medium term this is not a sustainable long term position. Additional income, a reduction in expenditure or more likely a combination of the two will need to be identified in the long term to close this gap.

7. Section seven - closure of the accounts and production of the statement of accounts

7.1 Objectives:

a) To close the accounts and publish the statement of accounts in a timely and accurate manner, within statutory deadlines and in accordance with relevant accounting and audit regulations.

b) To take into account actual expenditure in future years' budgets and the MTFP.

7.2 In order to achieve this objective we will:

a) Agree a detailed timetable for the closure of the accounts with Capita.

b) Liaise with our external auditors over the closedown timetable.

c) Enable review of the accounts by the Joint Audit and Governance Committee.

7.3 Significant current issues:

a) This function was outsourced to Capita on 1 August 2016.

b) The 2017/187 statement of accounts will be the first that have to be prepared ready for audit by 31 May.

8. Section eight - review

This strategy will be reviewed annually.

This page is intentionally left blank

By virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank