



# Bournemouth, Christchurch and Poole Shadow Executive

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Report Subject	Consolidated Medium Term Financial Plan (MTFP) Update
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Status	Public
Classification	For decision
Executive summary	<p>This report details the good progress made in the development of the Medium Term Financial Plan (MTFP) and a robust balanced budget for 2019/20. The report highlights;</p> <ul style="list-style-type: none"><li>• The latest Consolidated MTFP position.</li><li>• Details of the key assumptions being applied to the budget and MTFP process.</li><li>• An overview of the impact on Local Government of the Chancellors 2018 Budget made on Monday 29 October 2018.</li><li>• Details of the latest position in respect of the process of harmonising Council Tax in the new Council.</li><li>• The ongoing work in reviewing both the earmarked and unearmarked reserves of the predecessor councils which may be made available to the new authority.</li><li>• Draft of the Treasury Management Strategy documents to be applied to the new authority.</li></ul>

<b>Recommendations</b>	<p><b>The Executive Committee is requested to;</b></p> <ol style="list-style-type: none"> <li><b>1. Note the good progress that has been made in developing a robust and lawful budget for 2019/20.</b></li> <li><b>2. Note the implications of the Chancellors 2018 Budget Statement.</b></li> <li><b>3. Note the latest position in respect of the process for the harmonisation of Council Tax.</b></li> <li><b>4. Endorse the ongoing work in reviewing earmarked and unearmarked revenue reserves of the predecessor councils.</b></li> <li><b>5. Endorse the work done in establishing a draft of the Treasury Management Strategy.</b></li> </ol>
<b>Reasons for recommendations</b>	<p>To provide the Shadow Executive with the latest high level overview of the medium term financial plan position for the new Bournemouth, Christchurch and Poole Unitary Authority.</p>

## **Medium Term Financial Plan (MTFP)**

1. The MTFP is designed to provide sound financial management and control arrangements which will be integral to the delivery of good governance for the council. Such arrangements will help in supporting service delivery, accountable decision making and safeguarding stewardship whilst optimising the use of available resources.
2. This report should be seen in the context of a rolling, evolving process structured to enable the proactive management and prioritisation of the new Council's resources.
3. At the meetings of the BCP Joint Committee on the 15 December 2017, 20 March 2018, 23 May 2018 and the BCP Shadow Executive on 24 July 2018 and 17 October 2018 high level consolidated Medium Term Financial Plan (MTFP) information has been presented which has been drawn together from both the published plans of each of the four relevant sovereign councils and the work to date to deliver a balanced, robust and sustainable budget for 2019/20.
4. To support its development the Shadow Executive have previously endorsed the following high level budget cycle for the BCP Unitary Authority;

### **Stage One:** April to June

- High level budget planning process as set out in the Consolidated MTFP Update report to the May 2018 BCP Joint Committee including the Financial Strategy.
- Top down baselining and disaggregation of Dorset County Councils 2018/19 Budget to establish costs and income relevant to the community and residents of Christchurch.

### **Stage Two:** June to September

- Initial detailed service based budget process led by the Phase 2 Delivery Boards.
- Establish and implement cash limits and savings targets. These were issued in July.

- Outline savings and efficiency plans as per the Financial Strategy. Within this there was an emphasis on efficiencies / reductions in the number of employed staff through economies of scale.

**Stage Three:** October to December

- Refinement stage including Member consideration of budget saving options.
- Consideration of public consultation, options and proposals.

**Stage Four:** January to February

- Finalise the 2019/20 Budget.

- As part of the Stage Three process Delivery Boards, in liaison with their nominated Shadow Executive Members, have been undertaking work to determine the efficiencies that could contribute to their established savings targets. The main area has consistently been focused on the reduction of the consolidated staff base of the new council. Such opportunities are mainly from a combination of avoiding duplication in the cost of management, through economies of scale in service delivery, and particularly in front line services own, back office and support functions.
- Figure 1 below presents the latest consolidated MTFP position as articulated through those previous reports and as updated from the October position.

**Figure 1:** BCP Unitary Council – Consolidated MTFP Position – December 2018

	2019/20 £000's	2020/21 £000's	Total £000's
Annual funding gap before savings	14,130	12,124	26,254
Already assumed savings	(3,379)	(657)	(4,036)
<b>Net approved funding gaps</b>	<b>10,751</b>	<b>11,467</b>	<b>22,218</b>
Consistent 2.99% C Tax increase	(1,728)		(1,728)
<b>Sub Total</b>	<b>9,023</b>	<b>11,467</b>	<b>20,490</b>
Council Tax Foregone <i>(assumes a six year harmonisation model)</i>	1,503	1,061	2,564
<b>Sub Total</b>	<b>10,526</b>	<b>12,528</b>	<b>23,054</b>
Provision for emerging cost pressures, changes in demand etc.	3,474		3,474
<b>Funding Gap (BCP JC 23/5/18)</b>	<b>14,000</b>	<b>12,528</b>	<b>26,528</b>
Financial Strategy savings (Part 1)	(1,034)		(1,034)
<b>Funding Gap (BCP SE 24/7/18)</b>	<b>12,966</b>	<b>12,528</b>	<b>25,494</b>
Financial Strategy savings (Part 2)	(1,782)	198	(1,584)
<b>Funding Gap (BCP SE 17/10/18)</b>	<b>11,184</b>	<b>12,726</b>	<b>23,910</b>
Financial Strategy savings (Part 3)	(11,184)	1,590	(9,594)
<b>Funding Gap (BCP SE 12/12/18)</b>	<b>0</b>	<b>14,316</b>	<b>14,316</b>

7. Financial Strategy savings (Part1) reflects the items referred to in the report to the Shadow Executive on the 24 July 2018 including savings from democratic representation, reduced external audit costs, and savings from common financial policies.
8. Financial Strategy savings (Part 2) generally relates to the provisional outcome of the disaggregation of the 2018/19 revenue budget of Dorset County Council and from establishing consistent funding assumptions.
9. Financial Strategy savings (Part 3) reflects the progress made by each of the four Delivery Boards (Adults, Children, Place and Corporate) towards their established savings targets and from the ongoing review of income generated from council tax, business rates and specific grant income. Although the position in figure 1 is presented as balanced there continues to be movement in the position as the council looks to achieve something not previously attempted in drawing together two upper tier unitary councils with a district council and part of a county council.
10. The intention is that through the application of the approved Financial Strategy, and working within the process and timetable set out in the budget cycle highlighted above, Members and Officers will now bring forward the final proposals to enable not just a balanced budget, but a robust budget for delivering the services of the new council and its priorities for 2019/20.
11. **Appendix A** provides details of the key assumptions currently being made and those which underpin the development of both the 2019/20 Budget and MTFP. At this stage there remain a number of risks associated with the formation of the first budget for the new authority. A key assumption will be each of the delivery boards achieving the parameters of their individual financial strategies upon which the budget for 2019/20 is currently based.
12. The next key milestone will be the provisional 2019/20 Local Government Finance Settlement and confirmation that government have apportioned funding currently made available to Dorset County Council in accordance with the assumptions made locally as part of the disaggregation process. The position as set out in Figure 1 makes no provision for a base revenue budget contingency and in line with the process uses the resources set aside as part of the finance strategy to cover cost pressures. Careful consideration will now need to be given to the level of any contingency that should be included in a robust first budget for the new authority.
13. It should also be highlighted that work continues with the BCP Shadow Schools Forum to ensure a balanced budget for the Dedicated Schools Grant (DSG) can be established. Their work programme is particularly focused on addressing the financial challenge associated with the high needs element of the budget.
14. The intention is that the February 2019 Budget report will extend the timeframe of the MTFP from two to four years.

## Chancellors 2018 Budget Statement

15. On **29 October 2018**, the Chancellor, Philip Hammond, introduced his Budget 2018 to the House of Commons in which he promised that the era of austerity is finally coming to an end but that fiscal discipline will remain. He also signalled that his March 2019 Budget statement might need to be upgraded to a full Budget depending on the progress made around the United Kingdoms exit of the European Union.
16. In respect of Local Government the Budget Statement made two significant statements. The first was in respect of a number of spending pledges which evident that the Government has listened to some of the requests for additional funding for under pressure local services. The second was in regards to the control totals for the next spending review period which is assumed will cover the four year period 2020/21 to 2023/24.
17. Taking the last of these first, in June 2018 the Government set out plans to invest an extra £80bn over five years or up to £20.5bn per annum in the National Health Service (NHS). Budget 2018 did not include any detailed evidence of exactly how this commitment will be financed but it did show total government spending for the period 2020/21 to 2023/24 split between the NHS and all other departments. This indicates that resources across the rest of government departments will increase in cash terms by 8.4% over the period 2019/20 to 2023/24 which is roughly in line the increases in the Consumer Price Index (CPI) for the period set by the Office Budget Responsibility (OBR). This suggests that outside of the NHS, all other departments combined will not see any real terms increase in their funding with some doing better and some worse than this averaged position. This accords with our current financial planning assumption of a cash freeze for local government over the Spending Review 2019 (SR19) period with business rates resources increasing by CPI.
18. As stated the Chancellor also announced a number of additional public spending measures relating to 2018/19 and 2019/20. These included;
  - Confirmation that the **£240m** of additional Winter Pressures funding announced in October for 2018/19 will also be provided for 2019/20. It should be highlighted that the local Clinical Commission Group (CCG) will have expectations as to how these resources, which are estimated at £1.7m per annum for BCP, will be applied.
  - A further **£410m** of funding in 2019/20 for adults and children's social care with the Budget stating that where necessary, local councils should use this funding to ensure adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children.
  - An additional **£55m** for the Disabled Facilities Grant in 2018/19 to provide home aids and adaptations for disabled children and adults on low incomes.
  - **£420m** to local authorities in 2018/19 to tackle potholes, repair damaged roads and invest in keeping bridges open.

Generally Local Authorities will have to wait until around the 6 December 2018, which is when we are being promised the provisional 2019/20 Local Government Settlement, for confirmation of individual allocations. That said the allocations from the £420m for local transport in 2018/19 where announced on the 13 November 2018 with Bournemouth receiving £644,000, Poole £709,000 and Dorset County Council £6,165,000.

19. In addition the Budget 2018 also;

- Confirmed that the Housing Revenue Account debt cap that controls local authority borrowing for house building was abolished from 29 October 2018.
- Provided support to the business rates system through reducing bills by one-third for retail properties with a rateable value below £51,000 for two years from April 2019. Local authorities will be fully compensated for the loss of income as a result of the business rates changes.
- Created a £675m Future High Streets Fund to support areas fund plans to redevelop their high streets and town centres. This will be invested in town centre infrastructure, including increased access to the high street and supporting redevelopment and densification around the high street. Although spread across the whole period to 2023/24, 90% of this funding will be made available after 2021/22.
- Set out that from April 2019 the National Living Wage will increase from £7.83 an hour to £8.21.

## **Council Tax Harmonisation**

20. The BCP Authorities approach to council tax harmonisation has been developed through reports to, and the resolutions of, the Joint Committee and Shadow Executive in October, November and December 2017 as well as January, March, April and November 2018.

21. This culminated in the agreement of the Shadow Executive in November 2018 to write to Rishi Sunak (Minister for Local Government) in support of his endorsement of local preference as the fundamental determinate of the strategy provided a fully harmonised council tax is set by the start of the eighth (2026/27) at the latest. The Secretary of State will set out of the Government's final parameters as part of the Finance Order which was due to be laid by the end of November 2018.

22. The Shadow Executive local preference can be cited as follows;

- a) That no Borough's council tax levels will rise at a rate exceeding the Government's referendum limits; and
- b) That the absolute level of council tax levied in Christchurch in respect of the unitary authority is frozen and or reduced until the new harmonised rate is applied.

23. In support of this preference the Councils Medium Term Financial Plan (MTFP) currently makes provision for the financial implications of council tax forgone resulting from the application of the following assumed parameters;

- i. Adjustments to the Band D council tax rates of the three predecessor councils will be made to reflect the creation of two new Town Councils in Christchurch and the transfer of the mayoral function to Chartered Trustees in both Bournemouth and Poole and to the new Christchurch Town Council in Christchurch.
- ii. The Governments referendum limit will be 2.99% in 2019/20 and 1.99% annually thereafter.
- iii. Poole's Council Tax (*as adjusted for i.*) will rise in line with the Government's referendum limit.

- iv. Christchurch's Council Tax (*as adjusted for i.*) will be frozen until the Poole's Council Tax catches up.
  - v. Bournemouth's Council Tax (*as adjusted for i.*) will increase by slightly less than the annual referendum limit to ensure it catches up with Christchurch's level of tax in the same year as Poole's.
  - vi. Any increases in the Government referendum limit, higher than those currently assumed, will reduce the period of harmonisation.
24. As part of the Parliamentary Orders Update report to the BCP Shadow Executive on the 7 November 2018 an appendix was included that provided details of the council tax harmonisation strategy based on the provisional estimates available at that time. **Appendix B** provides an update of the strategy. The changes generally reflect the following two key matters;
- Clarification from the Ministry of Housing, Communities and Local Government (MHCLG) that the Chartered Trustees in Bournemouth and Poole will not actually issue a precept until the 2020/21 financial year. In respect of the position for 2019/20 the new Unitary Council will need to include in its council tax requirement an **Anticipated Amount** which the trustees will then request is made available to them. This will mean that the adjustment to the current Bournemouth and Poole Band D charges will now be factored into the model in 2020/21.
  - The work by the Christchurch Council Task and Finish Group charged with providing proposals around the two new Town Councils in Christchurch (*Highcliffe & Walkford Neighbourhood Council and Christchurch Town Council*). Christchurch Council will be asked to make a final decision at its meeting on the 4 December 2018. Up until that point the information in Appendix B should be regarded as provisional.
25. It will be a matter for the Shadow Authority as part of its February 2019 budget report to determine its final council tax for 2019/20 within the these parameters.

## Reserves

26. In developing a financial strategy to support the delivery of a balanced budget for 2019/20, the interim s151 Officer to the BCP Shadow Authority has been undertaking a review of reserves. The purpose of this review is to determine the extent to which reserve resources might be best applied to;
- a) Transition, transformation and one-off costs associated with creating the new council.
  - b) Specific challenges faced by the new Council in creating a new single tier local government entity. An example of this is around the legacy deficits on the High Needs element of its Dedicated Schools Grant.
  - c) Supplementing amounts currently available for Welfare Reform and as a Hardship Fund.
27. The proposal is to categorise earmarked reserves into ten broad headings.
- Financial resilience reserves
  - Transition and transformation reserves
  - Asset investment strategy, rent, risk and repairs reserve
  - Insurance reserve

- Reserves held in partnership for external organisations
- Reserves required by statute or legislation
- Planning related reserves
- Government grants held in reserves
- Maintenance reserves
- ICT development and improvement reserves
- Reserves held to support corporate priorities and service improvements

From the work undertaken to date it can be established that further work will be required to ensure consistency in reporting of the reserves inherited from predecessor councils between these categories. Work will also now be undertaken to ensure that certain items are consistently recorded between reserves and other balance sheet headings such as provisions.

28. As part of the approved BCP financial strategy the principle, at least in the first year of the new Council, is to maintain the absolute value of the unearmarked reserves passed across from Bournemouth, Christchurch and Poole councils to help mitigate operational risk. This continues to the financial planning assumption being applied.
29. At this stage no assumption is being made in regards to the value of the reserves that will be transferred from Dorset County Council (DCC). Agreement on the complete set of principles to be applied to the disaggregation of the 31 March 2019 balance sheet of DCC remains to be reached. However in regards to reserves the following *draft* principles are currently being applied;
- The General Balances and the General Earmarked reserves of DCC will be apportioned between the two unitary councils based on population which for the avoidance of doubt will be 11.7% share to the BCP Unitary.
  - DCC project/building/trusts/bequests earmarked reserves will be apportioned to the new unitary council that they can specifically be identified with.
  - Separate arrangements will be made in respect of the Private Finance Initiative and the Insurance earmarked reserves.
30. Ongoing analysis of unearmarked and earmarked reserves will provide a clear audit trail to the resources made available to the new authority and provide assurance in respect of a fair and reasonable apportionment of the reserves of DCC.

### **Draft Treasury Management Strategy**

31. All Councils are required to have a Treasury Management Strategy. This would normally be a matter for consideration by its Audit Committee however in this regard it has been developed by the Finance Task and Finish Group. This includes the details of the underlying policies and practices and its prudential indicators.
32. **Appendix C** attached presents the draft of the Treasury Management Strategy and the Treasury Management Policy and Practices. These documents reflect;

- revisions that local authorities are required to make for 2019/20 due to revisions of MHCLG Investment Guidance, MHCLG Minimum Revenue Provision (MRP) guidance, CIPFA Prudential Code, and the CIPFA Treasury Management code.
- the position from the combination of Bournemouth, Christchurch and Poole's information together. Work remains ongoing in respect of the principles to be applied to the 31 March 2019 disaggregation of the balance sheet of Dorset County Council.

The final version will be included in the February 2019 Budget report for approval by the Shadow Authority.

## **Schedule of key financial decisions made by the sovereign councils**

33. The Chief Financial Officers of each of the sovereign Councils has a key role in ensuring the Shadow Authority are made aware of any significant financial matters which will impact on the future resilience and sustainability of the proposed new Unitary Authority.
34. A four part protocol is now in operation which requires;
- 1) The Chief Financial Officer of each sovereign Council to ensure the relevant service Portfolio Holders and the Resources Portfolio Holders for each of the sovereign councils are made aware of any proposals before they are presented to the relevant decisions making body for approval.
  - 2) That each Consolidated MTFP Update report to the BCP Shadow Executive includes a schedule of the key financial decisions made since the previous such report.
  - 3) That any key financial decision which is a Cabinet decision of the each sovereign Council's will need to include a section in the report on consultation with the Shadow Executive. The expectation is the report author will consult with the relevant members of the Shadow Executive and detail who they consulted with and their response.
  - 4) That any report which is a Council decision of each of the sovereign Councils, and also contains a key financial decision, will be presented by the report author to the Shadow Executive for their formal consideration as part of the consultation process. The sovereign council will therefore be able to reflect on the feedback from the Shadow Executive when they consider their decision.
35. The Consolidated MTFP Update report to the BCP Shadow Executive on the 17 October 2018 presented the key decisions that had taken place since the 24 July 2018. **Appendix D** sets out the key financial decisions since the October Shadow Executive meeting.

## **Previous Reports**

36. Previous Consolidated MTFP Update Reports to this Shadow Executive have provided information on;
- Financial Strategy.
  - Budget Timetable.
  - Aggregate Budget Information.
  - Fair Funding Review.

- 75% Business Rates Retention Model.
- Negative Revenue Support Grant (RSG).
- Response submitted to the Ministry of Housing, Communities and Local Government to the technical consultation on the 2019/20 Local Government Finance Settlement.
- Details of the CIPFA financial resilience index.
- Capital Programme, the Capital Financing Requirement and External Loans.
- Reserves.
- Consolidated Housing Revenue Account.
- Key financial decisions made by each of the four sovereign councils.

## **Consultation**

37. In isolation, the matters raised in this report do not require any formal consultation. The necessary additional resources, savings and efficiencies required to balance the budget over the next four years will each need to be reviewed to determine the extent to which they may require consultation. Consideration will also need to be given to the relevant period, stakeholder groups and method of consultation.

## **Summary of finance and resourcing implications**

38. As set out in the report.

## **Summary of legal implications**

39. It is the responsibility of Members of the Shadow Authority to ensure the Council sets a balanced budget for the forthcoming year. In setting such a budget Members and Officers of the authority have a legal requirement to ensure it is balanced in a manner which reflects the needs of both *current* and *future* taxpayers in discharging these responsibilities. In essence this is a direct reference to ensure that the authority sets a financially sustainable budget which is mindful of the long term consequences of any short term decisions.

## **Summary of human resources implications**

40. There are no direct human resource implications of this report. However, the MTFP and Budget will have a direct impact on the level of services delivered by the Council, the mechanisms by which those services are delivered and the associated staffing establishment.

## **Summary of environmental impact**

41. None specifically related to this report.

## Summary of equalities and diversity impact

42. A full Equalities Impact and Needs Assessment (EINA) will be undertaken as part of the final February report to Members as part of the annual budget process to identify the overall equality impacts in respect of the nine protected characteristics:
- a) age;
  - b) disability;
  - c) gender reassignment;
  - d) marriage / civil partnership;
  - e) pregnancy/maternity;
  - f) race;
  - g) religion & belief;
  - h) sex;
  - i) sexual orientation.
43. Officers are required to identify any EINA implications of any specific priorities or savings which they bring forward as part of their budget proposals which are then used to inform the Council's final Budget decisions.

## Summary of risk assessment

44. A key thread of the Future Dorset submission was the opportunity to best protect public services as the government continues to reduce the funding it provides to local councils.
45. A separate report on this agenda addresses the key programme risks.

## Background papers

46. Previous Consolidated Medium Term Financial Plan reports to this Joint Committee can be found at <https://bcpsshadowauthority.wordpress.com/meetings/>
- 15 December 2017
  - 20 March 2018
  - 23 May 2018
  - 24 July 2018
  - 17 October 2018

## Appendices

47. Appendix A      Budget and MTFP Key assumptions
- Appendix B      Council tax harmonisation – latest provisional model
- Appendix C      Treasury management strategy documentation
- Appendix D      Key financial decisions since the 17 October 2018 Shadow Executive

# MEDIUM TERM FINANCIAL PLAN 2019 to 2023

## ASSUMPTIONS AND PRINCIPLES

The Medium Term Financial Plan (MTFP) as set out in the December 2018 Consolidate MTFP Update report to the Shadow Executive is based on the following assumptions;

### Government funding

The MTFP is currently drafted in line with the final year of the four year Local Government Financial Settlement announced in 2016/17. This highlights that the new Council will lose a further £6.2m per annum in core Government funding from 2019/20 onwards.

Government have commenced work on their 2019 Spending Review (SR2019) which will outline the resources they intend to make available to Local Government from 2020/21 onwards. At this stage there has been no formal announcement on the exact period to be covered or the timeline for departmental submissions. The indications via the Chancellors 2018 Budget are that it will cover the four year period 2020/21 to 2023/24. It should though be stressed it could just cover a one year period due to uncertainty associated with the United Kingdoms decision to withdraw from the European Union.

What is known about the next Spending Review is that it is due to be supported by the outcome of a Fair Funding Review and a move to 75% Business Rates Retention. The key points associated with the proposed 75% Business Rates Retention model include;

- It will be **fiscally neutral** at a national level.
- It will continue to be underpinned by the **principle of redistribution of resources** based on need.
- The Government will incorporate additional funding responsibilities including the Public Health Grant and where relevant any residual Revenue Support Grant (RSG).
- It will be subject to suitable transitional measures.

At its crudest the Fair Funding Review is exploring the relationship between three core issues, the volume of services needed, the cost of those services and the ability to raise income locally. The assumption had previously always been that core government grant funding was designed to fill the gap between these three issues.

Any redistribution of funding for local government will inevitably create winners and losers. The concern for BCP will be that historically such redistributions have not favoured south coast or Dorset authorities.

Within the detail of the Chancellors Budget 2018 he set out total government spending for the period 2020/21 to 2023/24 split between the NHS and all other departments. This indicates that resources across the rest of government Departments will increase in cash terms by 8.4% over the period 2019/20 to 2023/24 which is roughly in line the increases in the Consumer Price Index (CPI) for the period set by the Office Budget Responsibility (OBR). This suggests that outside of the NHS, all other Departments combined will not see any real terms increase in their funding with some doing better and some worse than this averaged position. This position accords with our current financial planning assumption of a cash freeze for local government over the Spending Review 2019 (SR19) period.

One caveat with this is that as a matter of prudence and due to the uncertainty associated with the approach for drawing up the baseline funding position for the new council, no provision has been made for the potentially positive impact associated with the Government's proposal to remove negative Revenue Support Grant (RSG) in 2019/20 which would potentially reduce the value of the Government funding reductions by £3m. The removal of negative RSG in 2019/20 was the suggested approach the Government outlined in their July 2018 Technical Consultation on the 2019/20 Local Government Finance Settlement. Government lobbying around negative RSG was a key category within the BCP financial strategy agreed in May 2018 by the BCP Joint Committee. It was also a matter that members of the BCP Financial Strategy & Council Tax Harmonisation Task and Finished Group raised with each of the five local MPs in early July.

It is important to recognise that if we were to receive some relief from the impact of negative RSG it most likely only likely to be temporary with its impact playing out as part of the 2019 Spending Review.

The Institute for Government (IfG) have stated that they expect the 2019 Spending Review, other than for the National Health Service, to be another lean one for public services. Given the ongoing demand particularly on Adult, Children's and Housing services, and the Government funding reductions already faced by councils since 2010 the prediction is it will be more difficult than the previous two.

### **Council Tax**

The assumption is that the Council will move towards the harmonisation of Council Tax in line with the local preference developed by the Shadow Executive namely;

- 1) Adjustments to the current Band D council tax rates of the three predecessor councils will be made to reflect the creation of two new Town Councils in Christchurch and the transfer of the mayoral function to Chartered Trustees in both Bournemouth and Poole and to the new Christchurch Town Council in Christchurch.
- 2) The Government's referendum limit will be 2.99% in 2019/20 and 1.99% annually thereafter.
- 3) Poole's Council Tax (*as adjusted for 1*) will rise in line with the Government's referendum limit.
- 4) Christchurch's Council Tax (*as adjusted for 1*) will be frozen until the Poole's Council Tax catches up.
- 5) Bournemouth's Council Tax (*as adjusted for 1*) will increase by slightly less than the annual referendum limit to ensure it catches up with Christchurch's level of tax in the same year as Poole's.
- 6) Any increases in the Government referendum limit, higher than those currently assumed, will reduce the period of harmonisation.

In line with (3) above the assumption is that the lowest level of Council Tax, which is within Poole, will increase by 2.99%. For future years the current planning assumption is 1.99%.

Normally a local authority would determine its consolidated Council Tax taxbase, the number of Band D properties, as part of an annual report to Council in December/January each year. The intention is that the new BCP will need to maintain a separate taxbase for each area (Bournemouth, Christchurch and Poole) until the point of harmonisation.

### **Business Rates**

The assumption is that the Council will continue to deliver amounts in excess of those assumed by the Government as part of the Council's baseline finance settlement from the Government. These amounts have though been reducing more towards the baseline based on actual performance over recent years.

In line with the detail of the Spending Review 2019 (SR19) announced by the Chancellor in his October 2018 Budget our current financial planning assumption is for business rates resources to increase by Consumer Price Index (CPI).

This position will be kept under review in light of the announcement move to a 75% Retained Business Rates model from 2020/21.

### **New Homes Bonus (NHB)**

In establishing a consistent financial policy it is proposed to budget for New Homes Bonus to support the revenue base budget in 2019/20. NHB is an unringfenced grant paid by Central Government to Councils for increasing the number of homes and the number of long term empty properties bought back into use in their area. The bonus was previously paid for six years at a rate equivalent to the extra Council Tax revenue a property will raise. In line with the 2017/18 local government finance settlement the bonus has been reduced to five years from 2017/18 and four years from 2018/19 onwards. A restriction is now applied which means the Council will not receive any bonus on the first 0.4% of any housing growth.

The 2018/19 allocation across Bournemouth, Christchurch and Poole is £4.3m in New Homes Bonus. The budget proposed for 2019/20 assumes that the NHB will be reduced to £3.2m.

It should be highlighted no allowance has been made for the potential increase in the annual baseline below which no NHB is paid. The July 2018 Technical Consultation on the 2019/20 Local Government Finance Settlement indicated that this baseline, sometimes referred to as the “deadweight”, will need to be increase in 2019/20 due to affordability.

Current indications are that 2019/20 will be the final year NHB is paid as Government look to explore how to incentivise housing growth as part of the next spending review. It is though assumed that the replacement will provide resources equivalent to legacy payments already anticipated under the current system.

### **Adult Social Care investment**

Additional £16.4m investment in Adult Social Care over the next 2 years being a combination of;

- a) demographic growth in demand for care packages including those to support the urgent and emergency care system as well as prevent delayed discharges from hospital.
- b) assumptions around specific inflationary pressures within the care market which have increased the cost of care between 6% to 10% in recent years.
- c) Impact of the new National Living Wage which will increase from £7.83 an hour to £8.21 per hour from 1 April 2019 (4.9%).

It has also been assumed that the funding being made available to BCP in 2019/20 under the Improved Better Care Fund and the additional Social Care Funding announced in the October 2018 Budget will continue to be received in absolute annual terms for the period of the next spending review. It is hoped that the anticipated Green Paper on social care funding will provide sustainable funding for this service moving forward.

### **Pay award**

In September 2017 the Government announced its intention to move away from the 1% per annum public sector pay award policy but with a clear indication that any actual increases above this level are unlikely to be funded nationally. Negotiations via the National Employers for Local Government Services set 2% flat rate increase in both 2018/19 and 2019/20. However, increases in the lower spinal column points to reflect the National Living Wage increase the local government pay bill by 2.7% in 2018/19 and 2.8% in 2019/20.

Within the proposed budget provision has been made for the 2% baseline increase, with further provision in certain services where they have a significant staff base on the lower spinal column points. Services will be expected to manage the impact of any incremental drift in their pay base.

**Inflationary costs**

Inflation is only provided for in service budgets where it can be demonstrated that it will be needed due to either market or contract conditions. Inflation as at October 2018 was 2.4% as measured by the Consumer Price Index (CPI).

## Council Tax Modelling - BCP Council - Netted down for Band D Chartered Trustees amount

	CTax 2018/19 £	Increase 19/20 %	CTax 2019/20 £	CTax 2020/21 £	CTax 2021/22 £	CTax 2022/23 £	CTax 2023/24 £	CTax 2024/25 £	CTax 2025/26 £
Christchurch Borough Council	£200.82		£191.96	£191.96	£191.96	£191.96	£191.96	£191.96	£213.84
Dorset County Council	£1,406.34		£1,406.34	£1,406.34	£1,406.34	£1,406.34	£1,406.34	£1,406.34	£1,406.34
<b>Christchurch Total</b>	<b>£1,607.16</b>		<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,620.18</b>
Adjustment for Christchurch Town and Highcliffe & Walkford*	-£8.86								
<b>Christchurch Calculated ANA</b>	<b>£1,598.30</b>	0.00%	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,598.30</b>	<b>£1,620.18</b>
Christchurch Town Council Precept inc Mayoralty*	£9.69	-	<b>£27.92</b>	£28.48	£29.04	£29.62	£30.21	£30.81	£31.42
Burton Parish*	£13.08	1.99%	<b>£13.34</b>	£13.61	£13.88	£14.15	£14.43	£14.72	£15.01
Hurn Parish*	£27.93	1.99%	<b>£28.49</b>	£29.05	£29.63	£30.22	£30.82	£31.44	£32.06
Highcliffe and Walkford (New)*	£9.89	-	<b>£29.22</b>	£29.80	£30.39	£31.00	£31.61	£32.24	£32.89
<b>Bournemouth</b>	<b>£1,438.92</b>		<b>£1,473.40</b>	<b>£1,497.03</b>	<b>£1,518.73</b>	<b>£1,543.31</b>	<b>£1,568.39</b>	<b>£1,593.96</b>	<b>£1,620.18</b>
Adjustment for Bournemouth Chartered Trustee*	£0.00			-£2.40					
<b>Bournemouth Total</b>	<b>£1,438.92</b>	2.40%	<b>£1,473.40</b>	<b>£1,494.63</b>	<b>£1,518.73</b>	<b>£1,543.31</b>	<b>£1,568.39</b>	<b>£1,593.96</b>	<b>£1,620.18</b>
Bournemouth Chartered Trustee (New)*	£0.00	-	<b>£0.00</b>	£2.40	£2.45	£2.50	£2.55	£2.60	£2.65
Holdenhurst Parish*	£0.00	-	<b>£0.00</b>	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
<b>Poole</b>	<b>£1,399.68</b>		<b>£1,441.53</b>	<b>£1,470.22</b>	<b>£1,497.21</b>	<b>£1,527.05</b>	<b>£1,557.48</b>	<b>£1,588.52</b>	<b>£1,620.18</b>
Adjustment for Poole Chartered Trustee*	£0.00			-£2.26					
<b>Poole Total</b>	<b>£1,399.68</b>	2.99%	<b>£1,441.53</b>	<b>£1,467.95</b>	<b>£1,497.21</b>	<b>£1,527.05</b>	<b>£1,557.48</b>	<b>£1,588.52</b>	<b>£1,620.18</b>
Poole Chartered Trustee (New)*	£0.00	-	<b>£0.00</b>	£2.26	£2.31	£2.36	£2.40	£2.45	£2.50
Dorset Police and Crime Commissioner*	£206.58	1.99%	£210.69	£214.88	£219.16	£223.52	£227.97	£232.51	£237.13
Dorset and Wiltshire Fire and Rescue Authority*	£72.70	1.99%	£74.15	£75.62	£77.13	£78.66	£80.23	£81.82	£83.45

\*1.99% applied to all preceptors in future years

\*Figures are purely notional for modelling purposes

# Bournemouth, Christchurch and Poole Council (BCP)

## Treasury Management Strategy Statement 2019/20

### Introduction

#### Local Government Reorganisation in Dorset

- 1 Dorset's existing nine councils will be replaced with two new unitary councils from April 2019, with Bournemouth Borough Council, the Borough of Poole and Christchurch Borough Council forming one unitary council, and the six other councils forming the other.
- 2 It will therefore be necessary to 'disaggregate' existing investments and borrowings attributable to Christchurch Borough Council from the County Council's assets and liabilities. The process for doing this is being developed and agreed during 2018/19, in common with other services and activities of the County Council provided to Christchurch Borough Council.

#### Background

- 3 The Council defines its treasury management activities as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." Part of the treasury management operation is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 4 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

#### Reporting Requirements

- 6 **Capital Strategy** - The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:
  - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

- 7 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.
- 8 **Prudential and treasury indicators and treasury strategy** - The first, and most important report covers:
  - a The capital plans (including prudential indicators);
  - b A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
  - c The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - d An investment strategy (the parameters on how investments are to be managed).
- 9 **Quarterly treasury management report** – This will update members with the progress of the capital position, amending prudential indicators if necessary, and whether any policies require revision. The reports will be presented to a yet to be formed committee for the BCP authority.
- 10 **An annual treasury management report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 11 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the yet to be formed committee for the BCP authority.

### **Treasury Management Strategy for 2019/20**

- 12 The strategy for 2019/20 covers two main areas:

#### **Capital issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

#### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;

- policy on borrowing in advance of need;
  - debt rescheduling;
  - the investment strategy;
  - creditworthiness policy; and
  - policy on use of external service providers.
- 13 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

### **Training**

- 14 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be organised alongside the Council's Treasury Management advisors and will be organised for members for the formation of the Bournemouth, Christchurch and Poole Authority in 2019/20.
- 15 The training needs of treasury management officers are periodically reviewed.

### **Treasury management consultants**

- 16 Currently Bournemouth uses Link Asset Services and Christchurch and Poole use Arlingclose as its external treasury management advisors. The Finance team for Bournemouth and Poole and Christchurch are currently undertaking a tender to ensure one supplier is in place by the 1<sup>st</sup> April 2019.
- 17 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.
- 18 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **The Capital Prudential Indicators 2019/20 – 2020/21**

- 19 The Council's capital expenditure plans have a key influence over the treasury management activity. The capital expenditure plans are reflected in the prudential indicators, which are designed to assist members' in considering the impact and risk of this Council's capital expenditure plans. As the BCP authority is yet to be established the capital plans are limited to 2 years. These will be extended and represented once the BCP authority has established itself.

### **Capital expenditure**

- 20 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

<b>Capital expenditure</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>	<b>2020/21 Estimate £'000</b>
General Fund	112,749	46,963	13,250
Commercial activities/ non-financial investments	145,296	60,000	-
HRA	35,073	26,462	16,067
<b>Total</b>	<b>293,118</b>	<b>133,425</b>	<b>29,317</b>

\* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

21 The tables below summarise the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

#### **General Fund and Commercial Activity Capital Expenditure**

<b>Capital expenditure</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>	<b>2020/21 Estimate £'000</b>
<b>General Fund Total</b>	<b>258,045</b>	<b>106,963</b>	<b>13,250</b>
<b>Financed by:</b>			
Capital receipts	5,571	1,512	997
Capital grants & Contributions	47,962	21,642	7,765
Other Contributions	7,168	1,265	2,048
Reserve Contributions	10,821	6,893	1,050
Internal Borrowing	41,227	15,651	1,390
External Borrowing	-	-	-
<b>Total financing for the year</b>	<b>112,749</b>	<b>46,963</b>	<b>13,250</b>

## HRA Capital Expenditure

Capital expenditure	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
<b>HRA Total</b>	<b>35,073</b>	<b>26,462</b>	<b>16,067</b>
<b>Financed by:</b>			
Capital receipts	5,919	2,283	176
Major Repairs Allowance	28,830	24,179	7,791
Other Contributions	60	-	-
Internal Borrowing	264	-	-
External Borrowing	-	-	8,100
<b>Total financing for the year</b>	<b>35,073</b>	<b>26,462</b>	<b>16,067</b>

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

- 22 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
- 23 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.
- 24 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.
- 25 The Council is asked to approve the CFR projections overleaf:

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
<b>Capital Financing Requirement</b>			
CFR – General Fund	289,220	297,018	304,816
CFR – HRA	144,995	144,995	153,095
<b>Total CFR</b>	<b>434,215</b>	<b>442,013</b>	<b>457,911</b>
<b>Movement in CFR</b>	33,698	7,798	1,637
<b>Movement in CFR represented by</b>			
Net movement in borrowing for the year (above)	41,491	15,651	9,490
Less MRP/VRP and other financing movements	(7,793)	(7,853)	(7,853)
<b>Movement in CFR</b>	<b>33,698</b>	<b>7,798</b>	<b>1,637</b>

- 26 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

#### **Minimum Revenue Provision (MRP) policy statement**

- 27 The Council is required to make a Minimum Revenue Provision (MRP). It is a statutory requirement to make a charge to the Council's General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities.
- 28 MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.
- 29 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be either:
- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1);
  - **Based on CFR** – MRP will be based on the CFR (option 2);
- 30 These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.
- 31 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either:
- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
  - **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

- 32 The type of approach intended by the MRP guidance is clearly to enable local circumstances and discretion to play a part, as the guidance in general contains a set of recommendations rather than representing a prescriptive process. The guidance makes it clear that councils can follow an alternative approach, provided they still make a prudent provision.
- 33 It was agreed by members of previous Councils that the following MRP policy was applied from 2016/17 onwards:
- In respect of all supported borrowing, capital expenditure incurred prior to 2016/17 (excluding assets acquired under PFI or finance lease arrangements) MRP will be provided at a rate of 2% on a straight line basis to ensure the balance is fully cleared over the period in line with the useful life of the assets the debt services.
  - In respect of all unsupported borrowing, capital expenditure incurred prior to 2016/17 (excluding assets acquired under PFI or finance lease arrangements) the Council will apply the Asset life method as used in previous years and will apply an average life of 25 years for the unsupported borrowing requirement to be repaid over based on historical schemes that have required and applied unsupported borrowing.
  - MRP charges from 1 April 2004 to 31 March 2016 exceeded what prudence required during the period under this revised policy. There will be a realignment of MRP charged to the revenue account in 2016/17 and subsequent years to recognise this excess sum. Total MRP after applying realignment will not be less than zero in any financial year.
  - In respect of capital expenditure incurred in 2016/17 and subsequent financial years MRP will be provided at a rate of 4% on the written down balance.
- 34 In 2017/18 a proposed change was made that the 4% write down method will be used for all assets except for significant individual schemes exceeding £10m (such as asset investments) for which the specific asset life will be used for MRP purposes.
- 35 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).
- 36 Repayments included in annual PFI or finance leases are applied as MRP.

#### **MRP Overpayments**

- 37 A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £3.5m.

## **Borrowing**

- 38 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the

cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### Current portfolio position

39 The overall Treasury Management portfolio as at 31 March 2018 and for the position as at 31 October 2018 are shown below for both borrowing and investments.

	Actual 31/03/2018 £'000	Actual 31/03/2018 %	Current 31/10/2018 £'000	Current 31/10/2018 %
<b>Treasury investments</b>				
Money Market Funds	2,150	3%	2,000	2%
Bank Deposits	7,500	11%	13,100	16%
Local Authorities	23,000	33%	17,500	21%
Call Account	4,097	6%	11,960	15%
Debt Management Office	11,850	17%	12,850	16%
Cash Plus and Short Bond Funds	20,400	30%	25,000	30%
<b>Total Treasury Investments</b>	<b>68,997</b>	<b>100%</b>	<b>82,410</b>	<b>100%</b>
<b>Treasury External Borrowing</b>				
PWLB	153,187	62%	153,187	64%
Local Authorities	73,200	29%	64,600	27%
Private Sector	19,214	8%	18,863	8%
Salix	3,541	1%	2,695	1%
<b>Total External Borrowing</b>	<b>249,142</b>	<b>100%</b>	<b>239,345</b>	<b>100%</b>
<b>Net treasury investment / (borrowing)</b>	<b>(180,145)</b>		<b>(156,935)</b>	

40 It should be noted that Bournemouth Borough Council has secured £49m forward borrowing loan which will be issued in May 2021. There will be a need to refinance the current £49m local authority loans which will be redeemed in September 2019.

41 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
<b>External Debt</b>			
Debt at 1 April	249,142	249,142	200,142
Expected change in Debt	0	(49,000)	49,000
<b>Actual gross debt at 31 March</b>	<b>249,142</b>	<b>200,142</b>	<b>249,142</b>
<b>The Capital Financing Requirement</b>	<b>493,147</b>	<b>560,351</b>	<b>557,222</b>
<b>Under / (over) borrowing</b>	<b>244,005</b>	<b>360,209</b>	<b>308,080</b>

42 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed

the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

- 43 The previous Council have complied with their prudential indicator in the current year and the new authority does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

#### Treasury Indicators: limits to borrowing activity

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

- 45 **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

a This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

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

	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Operational boundary	411	460	510
Authorised limit	459	510	560

- 46 It should be noted that the Operation boundary and Authorised limit have been set to allow sufficient headroom should any future Asset Investments be approved.

#### Maturity structure of borrowing

- 47 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

48

Maturity structure of fixed interest rate borrowing 2019/20		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	50%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
10 years and above	50%	100%

<b>Maturity structure of variable interest rate borrowing 2019/20</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	25%
10 years and above	0%	25%

### Prospects for interest rates

- 49 Link Asset Services as part of their service is to assist the Council to formulate a view on interest rates. The following table gives their view on the base rate and PWLB borrowing costs.

<b>Link Asset Services Interest Rate View</b>														
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%
12 Month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%	3.60%	3.70%
50yr PWLB Rate	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.40%	3.50%

- 50 The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. It is unlikely that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for the UK exit of the European Union. Similarly, the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit process.

### Borrowing strategy

- 51 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow have been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that need to be considered.
- 52 The Chief Financial Officer has the delegated responsibility to arrange such loans

as are legally permitted to meet the Council's borrowing requirement and to arrange terms of all loans to the Council including amounts, periods and rates of interest.

- 53 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- a If it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
  - b If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
  - c Any decisions will be reported to the yet to be Audit and Governance committee for the BCP authority at the next available opportunity.

#### **Policy on borrowing in advance of need**

- 54 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 55 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

#### **Debt rescheduling**

- 56 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 57 The reasons for any rescheduling to take place will include:
- a The generation of cash savings and / or discounted cash flow savings;
  - b Helping to fulfil the treasury strategy;
  - c Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 58 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

59 All debt rescheduling will be reported to the Audit and Governance committee for the BCP authority at the earliest meeting following its action.

### **Municipal Bond Agency**

60 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

## **Annual Investment Strategy**

### **Investment Policy**

61 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

62 The Council’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

**The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).**

63 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

64 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

65 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

### **Creditworthiness policy**

66 The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- a It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate

security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- b It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 67 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to which types of investment instruments that can be used as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 68 Credit rating information is supplied by Link Asset (Services) Ltd, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 69 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

**Sovereign Ratings**

- AAA (non UK)

*(Rating Description: AAA = Prime Rating, AA+, AA, AA- = High Grade Rating)*

Appendix 2 sets out the current list of countries that the Council can invest funds with.

The UK sovereign rating is currently AA. To ensure that the Treasury Function has capacity to operate effectively no specific minimum UK sovereign rating has been set out.

**Selection Criteria**

- 70 Banks 1 - the Council will use UK and non UK banks which have, as a minimum at least one of, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):

	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poors</b>
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

- 71 Investments will include term deposits, call accounts, notice accounts and Certificate of Deposits.

- a Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- b Banks 3 – The Council’s own banker (HSBC) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- c Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- d Building societies. The Council will use societies which meet the ratings for Banks 1 outlined above.
- e Market Funds (MMFs) Constant net asset value (CNAV)
- f Money Market Funds (MMFs) Low-Volatility asset value (LNVAV)
- g Money Market Funds (MMFs) Variable net asset value (VNAV)
- h Ultra-Short Dated Bond Funds with a credit rating of at least 1.25
- i Ultra-Short Dated Bond Funds with a credit rating of at least 1.50
- j Cash Plus Funds
- k UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF))
- l Local authorities, Parish Councils, BCP Council Companies (Subsidiaries) and Partnerships.
- m Pooled Funds

**Maximum Time and Monetary Limits applying to Investments**

72 The maximum amount that can be invested in any one institution at the time of the investment (including call accounts) as a percentage of the total investment portfolio has been reviewed and rationalised. All AA- and above rated institutions have a maximum limit of 25%, all A+, A or A- rated institutions have a maximum limit of 20%. For practical reasons where the average investment balance falls below £10m it may become necessary to increase the percentage limit to 33% at the time of investment (this only applies to call accounts and money market funds).

73 The maximum time and monetary limits for institutions on the Council’s Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Long Term Rating	Money Limit	Time Limit
Banks 1 higher quality	AA-	25%	2 years
Banks 1 medium quality	A	20%	1 year
Banks 1 lower quality	A-	20%	6 months

Banks 2 category – part-nationalised			
Lloyds / Bank of Scotland	N/A	20%	2 years
RBS / Nat West			2 years
Banks 3 category – Council’s banker HSBC	AA-	25%	3 months
DMADF/Treasury Bills	AAA	25%	6 months
Local Authorities	N/A	20%	5 years
Money Market Funds CNAV	AAA	25%	Instant access
Money Market Funds LVNAV	AAA	25%	Instant access
Money Market Funds VNAV	AAA	25%	Instant access
Ultra-Short Dated Bond Funds	N/A	25%	Instant access
Cash Plus Funds	AAA	25%	12 to 18 months
UK Gilts	UK Sovereign Rate	25%	5 years

### Use of additional information other than credit ratings

74 Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information will be applied to compare the relative security of differing investment counterparties.

### Investment strategy

#### In-house funds

75 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

#### Investment returns expectations

76 Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- a 2018/19 0.75%
- b 2019/20 1.00%
- c 2020/21 1.50%
- d 2021/22 2.00%

77 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

78 **Investment treasury limit** – The maximum period for investments will be 5 years.

## **Appendices**

Appendix 1 - Economic Background and interest rate forecasts

Appendix 2 - Approved Countries for investments

Appendix 3 - Treasury Management Policy, Practices and Schedules

## Appendix 1: Economic Background (provided by Link Asset Services Ltd)

**GLOBAL OUTLOOK.** World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

**Inflation** has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

### **KEY RISKS - central bank monetary policy measures**

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

**The key issue now** is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt. In addition, the European Central Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

**UK.** The flow of positive economic statistics since the end of the first quarter this year has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

At their November meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time but declined to give a medium term forecast.

However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor has held back some spare capacity to provide a further fiscal stimulus if needed.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring next year. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

**Inflation.** The Consumer Price Index (CPI) measure of inflation fell from 2.7% to 2.4% in September. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market**, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.1%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 0.7%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

**USA.** President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. In particular, wage rates were increasing at 3.1% y/y in October and heading higher due to unemployment falling to a 49 year low of 3.7%. With CPI inflation over the target rate of 2% and on a rising trend towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being the fourth increase in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the

Fed in the second half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to the Fed having to start on cutting rates. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually increasing the amount of monthly maturing debt that it has not been reinvesting.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation. The results of the mid-term elections are not expected to have a material effect on the economy.

**Eurozone.** Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

### **INTEREST RATE FORECASTS**

The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PwLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

## **Appendix 2: Approved countries for investments**

AA

- United Kingdom

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

# **Bournemouth, Christchurch and Poole Council**

## **Treasury Management Policy, Practices and Schedules**

### **Treasury Management Practices and Schedules**

The Treasury Management Practices (TMPs) and Schedules set out the manner in which the Council will seek to achieve its Treasury Management Policies and objectives and how it will manage and control those activities.

TMP 1 – Treasury Risk Management

TMP 2 – Best Value and Performance Measurement

TMP 3 – Decision-Making and Analysis

TMP 4 - Approved Instruments, Methods and Techniques

TMP 5 - Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

TMP 6 - Reporting Requirements and Management Information Arrangements

TMP 7 - Budgeting, Accounting and Audit Arrangements

TMP 8 - Cash and Cash Flow Management

TMP 9 - Money Laundering

TMP 10 - Staff Training and Qualifications

TMP 11 - Use of External Service Providers

TMP 12 - Corporate Governance

## **TMP1 Treasury Risk Management**

- 1 The S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

## **Credit and Counterparty Risk Management**

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

- 2 The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, we will ensure that the counterparty list and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit the investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, Methods and Techniques and listed in the schedule to this document. The Council also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.
- 3 The S151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to which types of investment instruments that can be used as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 4 The minimum rating criteria uses method of selecting counterparties and applying limits. The Council will use UK and non-UK banks which have, as a minimum at least one of, the following Fitch, Moody's and Standard and Poor's credit ratings. Credit rating information is supplied by Link Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 5 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

## Sovereign Ratings

- AA (UK)
- AAA (non UK)

(Rating Description – AAA = Prime Rating, AA+, AA, AA- = High Grade Rating)

## Selection Criteria

- Banks 1 - the Council will use UK and non UK banks which have, as a minimum at least one of, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

	Fitch	Moody's	Standard & Poors
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

Investments will include term deposits, call accounts, notice accounts and CD's.

- a Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- b Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- c Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- d Building societies. The Council will use societies which meet the ratings for Banks 1 outlined above.
- e Market Funds (MMFs) CNAV
- f Money Market Funds (MMFs) LNAV
- g Money Market Funds (MMFs) VNAV
- h Ultra-Short Dated Bond Funds with a credit rating of at least 1.25
- i Ultra-Short Dated Bond Funds with a credit rating of at least 1.50
- j Cash Plus Funds
- k UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF))
- l Local authorities, Parish Councils, BCP Council Companies (Subsidiaries) and Partnerships.
- m Pooled Funds

## Maximum Time and Monetary Limits applying to Investments

- 6 The maximum that can be invested in any one institution at the time of the investment (including call accounts) as a percentage of the total investment portfolio has been reviewed and rationalised. All AA- and above rated institutions have a maximum limit of 25%, all A+, A or A- rated institutions have a maximum limit of 20%. For practical reasons where average investment balance falls below £10m it may become necessary to increase the percentage limit to 33% at the time of investment (this only applies to call accounts).
- 7 The maximum time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Long Term Rating	Money Limit	Time Limit
Banks 1 category	AA-	25%	2 years
Banks 1 category	A	20%	1 year
Banks 1 category	A-	20%	6 months
Banks 2 category – part-nationalised Lloyds / Bank of Scotland RBS / Nat West	N/A	20%	1 year 2 years
Banks 3 category – Council's banker	AA-	25%	3 months
DMADF/Treasury Bills	AAA	25%	6 months
Local Authorities	N/A	20%	5 years
Money Market Funds CNAV	AAA	25%	Instant access
Money Market Funds LVNAV	AAA	25%	Instant access
Money Market Funds VNAV	AAA	25%	Instant Access

Ultra-Short Dated Bond Funds	N/A	25%	Instant access
Cash Plus Funds	AAA	25%	12/18 months
UK Gilts	UK Sovereign Rate	25%	5 years

Approved methodology for changing limits and adding/removing counterparties

- 8 Credit ratings for individual counterparties can change at any time. The S151 Officer is responsible for applying the stated credit rating criteria outlined above for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.
- 9 The S151 Officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria outlined above.

**Liquidity Risk Management**

- 10 This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.
- 11 The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft 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.
- 12 The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Cash flow and cash balances

- 13 The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling 12 month cash flow forecast.  
  
The Treasury Management function shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.

In order to achieve the maximum return from investments, a daily cash balance of +/- £50,000 is the normal objective for the Council's bank account. Note - it may not always be possible or practical to achieve this target for various reasons, such as, late or fluctuating receipts after the treasury management activities for the day have been completed.

#### Short term investments

- 14 Funds are held in overnight accounts, call accounts or money market funds specifically in order to deal with day to day cash flow fluctuations.

#### Temporary borrowing

- 15 Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.

At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.

#### Bank Overdraft and standby facilities

- 16 The Council has an authorised overdraft limit with its bankers of up to £100k at an agreed rate of 2.39% over base rate.

#### **Interest Rate Risk Management**

- 17 The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.
- 18 The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting Requirements and Management Information Arrangements.
- 19 It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.
- 20 The Council's Policy will limit its exposure to interest rate changes by allowing a maximum of 4% of borrowing to be at variable interest and a maximum of 100% to be at fixed rate. In addition, a maximum of 50% of investments can be made at variable interest and a maximum of 100% to be at fixed rate.
- 21 Interest rates will be monitored by the Assistant Chief Financial Officer and information about possible changes in interest rates gathered from market sources.

### Policies concerning other instruments for interest rate management.

- 22 Forward dealing - Will only be undertaken where the date of commencement is 3 months (or less) for an investment from the date that funds will be transferred, in order to minimise risk due to uncertainties in the cash flow projections. The maximum length of time permissible for all investments will be 5 years.

### **Exchange Rate Risk Management**

- 23 The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

Approved criteria for managing changes in exchange rate levels

- i) As a result of the nature of the Council's business, it may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will eliminate all foreign exchange exposures as soon as they are identified.
- ii) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

### **Refinancing Risk Management**

- 24 The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.
- 25 The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.
- 26 It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

### Projected capital investment requirements

- 27 3 year projections are in place for capital expenditure and its financing or funding. Financing will be from capital receipts, reserves, any grants or contributions awarded and revenue. Funding will be from internal or external borrowing, as decided.

As required by the Prudential Code, the Council will undertake Options Appraisals to evaluate the best capital expenditure financing route.

The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.

#### Debt profiling, policies and practices

- 28 Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Treasury Management Strategy.

The Council will maintain through its various treasury spreadsheets reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancing.

Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.

#### Policy concerning limits on revenue consequences of capital financings

- 29 The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.

#### **Legal and Regulatory Risk Management**

- 30 The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.
- 31 The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in treasury activities. In framing its credit and counterparty policy under TMP1 Treasury Risk Management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.
- 32 The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.
- 33 The Council operates its Treasury Management Practices in accordance with the provisions of the Local Government and Housing Act 1989 and the CIPFA Treasury Code of Practice. The Council's powers are documented in the Treasury Management Policy statement, the Treasury Management Practices and the Schedules.
- 34 Counterparties are included on the lending list where they fully comply with the Credit Rating requirements from Fitch, S&P and Moody's or where they meet the specified exceptional criteria.
- 35 The S151 Officer will review the Legal and Regulatory framework in order to assess the impact of any changes on the Council.

### Procedures for evidencing the Council's powers/ authorities to counterparties

- 36 The Council's Financial Regulations contain evidence of the power/ authority to act as required by S151 of the Local Government Act 1972, under the general direction of the Council and Cabinet.

The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.

Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

### Required information from counterparties concerning their powers/ authorities

- 37 Lending shall only be made to institutions on the Council's authorised lending list.

The Council will only undertake borrowing from approved sources such as the Public Works Loans Board (PWLB), organisations such as the European Investment Bank and from commercial banks who are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4.

### **Political Risk Management**

- 38 Political risk is managed by:

- i) Adoption of the CIPFA Treasury Management Code of Practice;
- ii) Adherence to Corporate Governance (TMP 12 – Corporate Governance);
- iii) Adherence to the Statement of Professional Practice by the S151 Officer;
- iv) The roles of the Council and Cabinet.

### Details of relevant Statutes and regulations

- 39 The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are as follows:

- i) CIPFA's Treasury Management Code of Practice and guidance notes;
- ii) CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities;
- iii) CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments;
- iv) CIPFA Standard of Professional Practice on Treasury Management
- v) The Local Government Act 2003;
- vi) The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments;
- vii) Pensions, England and Wales - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 – SI 2009 No 3093;

- viii) MHCLG Guidance on Minimum Revenue Provision (MRP);
- ix) MHCLG Revised Guidance on Investments Feb 2017
- x) The MHCLG's Guidance on Local Government Investments in England issued March 2004 and subsequent amendments ;
- xi) The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883;
- xii) LAAP Bulletins;
- xiii) Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards);
- xiv) Accounts and Audit Regulations 2003, as amended together with CLG's Guidance;
- xv) The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets;
- xvi) Council's Constitution including:
  - Standing Orders relating to Contracts;
  - Financial Regulations;
  - Scheme of Delegation.
- xvii) CLG's Self-Financing Policy Documentation and subsequent amendments.

### **Fraud, Error and Corruption, and Contingency Management**

- 40 The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.
- 41 The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
- 42 In order to mitigate these risks, it is a system requirement that two officers need to be involved in order to facilitate a CHAPS payment via internet banking. The first officer will set up the payment details and the second officer will verify the details and authorise payment. Payment is only to be made on appropriately authorised documentation.
- 43 For payments to investment counterparties and other regular payments (e.g. Inland Revenue, Pensions) the payee name and bank details will be set up as named beneficiaries within the system.

#### Details of systems and procedures to be followed, including internet services

- 44 The S151 Officer will ensure that all Treasury Management Procedures are fully documented and approved and that they contain adequate levels of internal control. All computer systems or electronic forms of recording or transmitting data will have adequate security and back up provisions.
- 45 The S151 Officer will ensure that the Treasury Management function is subject to regular internal audit, the intention being that this will generally take place once each year with sufficient programmed days to cover all aspects of its activity.

#### Emergency and contingency planning arrangements

- 46 In the event of treasury management software being unavailable, due to power failure or problems with the system, arrangements for the day-to-day treasury function will be undertaken direct with the Council's bank.

#### Insurance cover details

- 47 The Treasury Management function is covered under the Council's Fidelity Guarantee Policy.

#### **Market risk management**

- 48 The Council will seek to ensure that its stated Treasury Management Policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (GILTS, CDS, etc.)

If the Council makes use of fund managers they may deal in GILTS, Certificates of deposit etc. on behalf of the Council. The limit for these will be the value of the fund, held by the external body at the time. The fund will be able to be liquidated within 7 days.

#### **TMP2 Best Value and Performance Measurement**

- 49 The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Strategy Statement.
- 50 Accordingly, the Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the Treasury Management function will be measured using the criteria set out in this section.

## **Methodology to be applied for evaluating the impact of Treasury Management decisions**

- 51 All treasury management decisions will be recorded by the Treasury Accountant. A monthly report will be produced and any significant decisions notified to the S151 Officer on the monthly report. Rates quoted for investments and borrowing will be recorded and monitored against benchmarks, any benchmarking reports will consider risk as well as the rate of return. Market trends will be compared to expectations. Investments or borrowing which takes place with a maturity of over one month, evidence should be kept to demonstrate that the most favourable interest rate has been achieved.

## **Policy concerning methods for Testing Value for Money in Treasury Management**

### Frequency and processes for review

- 52 The Treasury Management function will be included within the Core Service Transformation review of Strategic Finance.

### Banking services

- 53 Banking services will be retendered or renegotiated periodically in line with accepted procurement practice to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

### Money-broking services

- 54 The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. The Council will also deal direct with counterparties that appear on the lending lists where it can be shown that the rates achievable by dealing direct are higher than those that could have been achieved by dealing through money-brokers.

An approved list of brokers will be established which takes account of both prices and quality of services. Note that fees are only due when the authority chooses to borrow using money brokers.

### Consultants'/advisers' services

- 55 The Council may appoint professional treasury management advisers as and when it is deemed necessary to do so. The performance of these advisors will be monitored on an ongoing basis and be the subject of a tendering process.

Where treasury management advisers are appointed they will be expected to:

- i) Provide creditworthiness advice and updates on credit developments;
- ii) Provide rating watch information and highlight any impact on the Council's lending list;
- iii) Review all treasury management reports and check compliance with the Treasury Management Code of Practice, the Prudential Code and Best Practice;
- iv) Provide suitable economic information including interest rate forecasts;
- v) Offer suitable training and seminars to support for Members and officers;

- vi) Provide technical advice help and support as required.

### External Fund Managers

- 56 The Council may appoint full-time cash/external investment fund managers and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883].

The fund Manager will undertake all activity in accordance with the provisions set out in this document.

The delegation of investment management to external managers will entail the following:

- i) Agreement of a formal contractual agreement and documentation;
- ii) Agreement on terms for early termination of the contract;
- iii) Setting of a benchmark of [7 day LIBID] and a performance target of exceeding the benchmark;
- iv) Setting of investment counterparty constraints;
- v) Quarterly reporting of performance;
- vi) At least annual meetings with investment managers;
- vii) Setting of other constraints/parameters/conditions.

The Council's treasury management advisors will assist in monitoring the performance of the fund managers.

### **Methods to be employed for measuring the performance of the Council's Treasury Management activities**

- 57 Performance will be measured against the benchmark figures agreed. Performance will also be monitored by comparing expected levels of interest to the interest budgets set in the Budget setting process.

### Benchmarks and calculation methodology:

a Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

b Investment

The performance of investment earnings will be measured against the following benchmarks:

- i) In house investments - 7 Day LIBID
- ii) Cash fund manager - 7 Day LIBID

It is recognised that these benchmarks must be assessed in the overall context of security and liquidity being more important than yield.

## **TMP3 Decision-Making and Analysis**

- 58 The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.
- 59 Whilst the Council will take advice from external consultants as and when required it is recognised that the final decision for all treasury management activity lies with the Council.

### **Funding, Borrowing, Lending, and new instruments / techniques**

#### Records to be kept

- 60 Details of all rates achieved on new investments and borrowing will be kept by the S151 Officer, along with rates requested from other sources that were rejected. This is to show that the S151 Officer consulted different areas of the market place to support the decision made. All documentation to support investment / borrowing decisions will be available for inspection by internal audit.

#### Processes to be pursued

- 61 When investment decisions are to be made, the Treasury Accountant with responsibility for treasury management will seek rates from at least two brokers or counterparties that deal direct, and a comparison will be made with indicative rates quoted by brokers on the day. These rates, together with the reason for the chosen rate (not always the highest rate quoted), will be recorded on the deal ticket or electronically and will be made available for inspection. Since the start of the credit crisis and the nominal rates achieved on investments the Treasury Management function have concentrated their efforts firmly on capital protection and risk management. In practice the Council has a very restricted lending list and there is often little or no choice where to place investments.

Borrowing decisions will be made by the S151 Officer in the light of the Council's medium term budgetary requirement. The interest rate type, period of the loan and reason for the need to borrow will be recorded by the Group Accountant with responsibility for treasury management.

#### Issues to be addressed

- 62 In respect of every decision made the Council will:
- a Above all be clear about the nature and extent of the risks to which the Council may become exposed;
  - b Be certain about the legality of the decision reached and the nature of the transaction, and that all approvals to proceed have been obtained;
  - c Be content that the documentation is adequate both to deliver the Council's objectives and protect its interests, and to deliver good housekeeping;

- d Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded;
  - e Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.
- 63 In respect of borrowing and other funding decisions, the Council will:
- a Evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
  - b Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
  - c Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.
- 64 In respect of investment decisions, the Council will:
- a Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
  - b Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

#### **TMP4 Approved Instruments, Methods and Techniques**

- 65 The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed below and within the limits and parameters defined in TMP1 Risk Management.
- 66 Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its Treasury Management Strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

#### **Approved activities of the Treasury Management function**

- a Borrowing
- b Lending
- c Debt repayment and rescheduling
- d Consideration, approval and use of new financial instruments and treasury management techniques
- e Managing the underlying risk associated with the Council's capital financing and surplus funds activities
- f Managing cash flow
- g Banking activities
- h Leasing
- i The use of external fund managers

### Approved instruments for investment

- 67 In accordance with The Local Authorities (Capital Finance) (Approved Investments) Regulations 1990 and subsequent amendments, the instruments approved for investment and commonly used by local authorities are:
- a UK Government (including gilts, Treasury Bills and Debt Management Account Deposit Facility)
  - b Deposits with banks, building societies or local authorities (and certain other bodies) for up to five years;
  - c Certificates of deposits with banks or building societies for up to five years;
  - d Corporate bonds and bonds issued by Multilateral Development Banks;
  - e Euro-sterling issues by certain Supra-national bodies listed on the London and Dublin Stock Exchanges;
  - f Money Market Funds;
  - g Pooled funds, i.e. collective investment schemes as defined in SI 2004 No 534.

### Approved techniques

- a Forward dealing up to five years
- b Callable deposits up to five years

### Approved methods and sources of raising Capital Finance

- 68 Finance will only be raised in accordance with the Local Government and Housing Act, 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
Local Authorities and Other Public Bodies	●	●
Private Sector Organisations	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Municipal Bond Agency	●	●
Leasing (finance leases)	●	●
Deferred Purchase	●	●

### Other Methods of Financing

Government and EU Capital Grants  
Lottery monies  
PFI

- 69 These forms of funding will be considered based on the prevailing economic climate, regulations and local considerations. The S151 Officer has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

## Investment Limits

Deposits (including Money Market Funds)	<b>LIMIT</b> Unlimited
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## Borrowing Limits

### On Balance Sheet

PWLB	100%
Private Sector Organisations	100%
Municipal Bond Agency	20%
Local Authorities and Other Public Bodies	100%
Overdraft	£500k
Internal (capital receipts & revenue balances)	100%

## TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

- 70 The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.
- 71 The principles on which this will be based is a clear distinction between those charged with setting Treasury Management Policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the Treasury Management function.
- 72 If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.
- 73 The S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule in this section.
- 74 The S151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in this section.
- 75 The delegations to the S151 Officer in respect of treasury management are set out in this section. The S151 Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

## **76 Limits to responsibilities/discretion at Committee/Executive levels**

### Full Council

- receiving and reviewing the annual Treasury Management Strategy Statement and a report on Treasury Management Policy, Practices and Schedules;
- budget consideration and approval;
- receiving a summary annual report on performance during the previous financial year.

### Cabinet

- receiving and reviewing the annual Treasury Management Strategy Statement and a report on Treasury Management Policy, Practices and Schedules;
- budget consideration and approval;
- receiving a summary annual report on performance during the previous financial year;
- approval of investments where minimum lending criteria are not met.

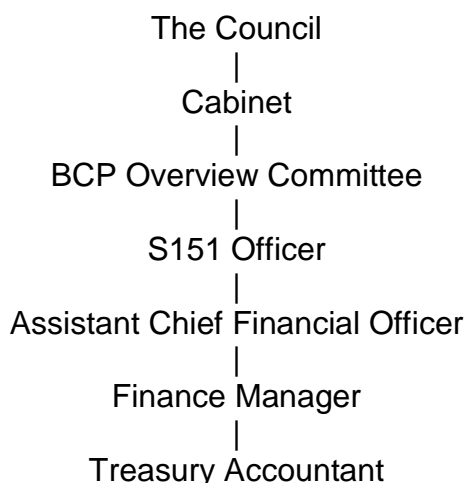
### BCP Committee

- approval of amendments to the Council's adopted clauses, Treasury Management Strategy Statement and Treasury Management Policies, Practices and Schedules;
- performance monitoring;
- receiving and reviewing external audit reports and acting on recommendations;
- approving the selection of external fund managers and agreeing terms of appointment;
- receiving a detailed annual report;
- scrutinise the Treasury Management Strategy Statement and Treasury Management Policies, Practices and Schedules;
- receive reports of any non-compliance with the Council Treasury Management Strategy Statement and Treasury Management Policies, Practices and Schedules.

## **77 Principles and practices concerning segregation of duties**

The S151 Officer will ensure that there is proper segregation of duties in place for Treasury Management.

## 78 Treasury Management organisation chart



## 79 Statement of Duties/Responsibilities of each Treasury Post

### a S151 Officer

#### i) The S151 Officer will:

- execute and administer treasury management decisions in accordance with the Treasury Management Strategy and the Treasury Management Policies, Practices and Schedules;
- recommend all arrangements for the identification, management and control of all treasury management risk and report on such;
- design, recommend and implement the annual Treasury Management Strategy and Treasury Management Policies, Practices and Schedules for approval, reviewing and monitoring compliance;
- adhere and monitor performance against the approved prudential indicators;
- construct the Council's lending list and formulating suitable criteria for assessing and monitoring the credit risk of investment counterparties;
- submit regular treasury management policy reports;
- submit budgets and budget variations;
- ensure that all Treasury Management Policies, Practices and Schedules are fully documented and approved, and contain adequate levels of internal control;
- receive and review management information reports;
- review the performance of the Treasury Management function and promote value for money reviews;
- ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensure all Members and treasury management staff receive training to ensure all responsibilities are carried out appropriately;

- recommend investments where the minimum lending criteria are not met;
  - ensure the adequacy of internal audit, and liaising with external audit;
  - ensure that the most appropriate form of borrowing is taken from the approved sources;
  - review the legal and regulatory framework in order to assess the impact of any changes on the Council;
  - monitor the Governance arrangements of the treasury management function;
  - recommend the appointment of external service providers.
- ii) The S151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.
- iii) Only officers approved by the S151 Officer or the Assistant Chief Finance Officer will conduct dealing transactions.
- iv) The S151 Officer will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected Members as soon as possible.
- v) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the S151 Officer to be satisfied, by reference to the Monitoring Officer, the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's financial Regulations.
- vi) It is also the responsibility of the S151 Officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- b Assistant Chief Financial Officer / Finance Manager
- i) The responsibilities of these posts will be:
- planning, organising, directing and monitoring the Treasury Management function;
  - ensuring compliance with the policy, practices and schedules;
  - regularly reporting to the S151 Officer regarding performance of the function;
  - ensuring the treasury management function is adequately covered during normal business hours;
  - monitoring market conditions and interest rates and advising the S151 Officer regarding its impact on the Council's strategy.
- c Finance Manager / Treasury Accountant
- i) The responsibilities of this post will be:
- execution of transactions;
  - adherence to agreed policies and practices on a day-to-day basis;
  - maintaining relationships with third parties and external service providers;

- supervising treasury management staff;
  - monitoring performance on a day-to-day basis;
  - submitting management information reports to the Assistant Chief Finance Officer;
  - preparation of cash flow statements;
  - recording all treasury management decisions;
  - maintain the counterparty list in line with the approvals made;
  - identifying and recommending opportunities for improved practices.
- d Treasury Accountant
- carry out day to day banking activities ensuring the treasury function meets its objectives
  - recording all treasury management decisions;
  - maintain the counterparty list in line with the approvals made;
  - preparation of cash flow statements;
- e Head of the Paid Service
- i) The responsibilities of this post will be:
- ensuring that the system is specified and implemented;
  - ensuring that the S151 Officer reports regularly to the Council, Cabinet and BCP Committee on treasury management policy, activity and performance as appropriate.
- f Monitoring Officer
- i) The responsibilities of this post will be:
- ensuring compliance by the S151 Officer with the Treasury Management Strategy Statement and Treasury Management Policies, Practices and Schedules and that they comply with the law;
  - being satisfied that any proposal to vary treasury management policy or practice complies with law or any code of practice;
  - giving advice to the S151 Officer when advice is sought.
- g Internal Audit
- i) The responsibilities of Internal Audit will be:
- reviewing compliance with approved policy and procedures;
  - reviewing division of duties and operational practice;
  - assessing value for money from treasury management activities;
  - undertaking audits to provide assurance over the probity of the Treasury Management function.

### **Absence cover arrangements**

- 80 The Finance Manager with responsibility for the treasury function will ensure that the Treasury Management function is adequately covered during normal business hours.

### **Dealing limits**

- 81 The Finance Manager with responsibility for treasury management is permitted to place deals in accordance with the Counterparty Lists and Limits and approved Treasury Management Practices.

### **List of approved brokers**

- Tradition Brokers
  - Sterling International Brokers division of BGC Brokers LP
  - Martin Brokers division of BGC Brokers LP
  - Tullett Prebon (Europe) Limited
- 82 Treasury management staff are also authorised to deal direct with any of the counterparties on the approved lending list, where it can be shown that better rates of interest can be achieved than would otherwise be available through Brokers.

### **Policy on Brokers' services**

- 83 The Authority aims to achieve a spread of brokers, together with the use of direct dealing counterparties in order to secure suitable deals.

### **Policy on taping of conversations**

- 84 The Authority does not currently tape telephone calls made to brokers. It is understood that the broker firms used do tape all telephone conversations and deals are always confirmed by fax by the broker and the body receiving or paying over the money, these documents will be retained.

### **Direct dealing practices**

- 85 The Authority aims to achieve a spread of counterparties in order to secure suitable deals.

### **Settlement Transmission Procedures**

- 86 On maturity of an investment or loan the broker / counterparty involved will always be contacted by the treasury management staff to confirm what the Authority's intentions are with regard to the maturity and whether it is to be repaid.

### **Documentation requirements**

- 87 Copies of all correspondence with brokers will be kept and made available for inspection.

### **Arrangements Concerning the Management of Third-Party Funds**

- 88 The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

## **TMP6 Reporting Requirements and Management Information Arrangements**

- 89 The Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the Treasury Management function.

### **Annual Programme of reporting**

- 90 As a minimum, the Council will receive:
- a An annual report on the strategy and plan to be pursued in the coming year;
  - b A summary annual report on the performance of the Treasury Management function.
- 91 It is recognised that BCP Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy Statement and activities and as such they will receive:
- a A copy of the annual report on the strategy and plan to be pursued in the coming year together with the treasury management prudential indicators;
  - b A full annual report on the performance of the Treasury Management function, on the effects of the decisions taken and the transactions executed in the year to date, and on any circumstances of non-compliance with the Council's Treasury Management Strategy Statement and TMPs.
  - c Quarterly Monitoring Reports

### **Annual Treasury Management Strategy Statement**

- 92 The Treasury Management Strategy Statement sets out the specific expected treasury management activities for the forthcoming financial year. This Strategy will be submitted to Cabinet and Full Council for approval before the commencement of each financial year.
- 93 The formulation of the Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.
- 94 The Treasury Management Strategy Statement is concerned with the following elements:
- a The prospects for interest rates;
  - b The limits placed by the Council on treasury activities;
  - c The expected borrowing strategy;
  - d The expected temporary investment strategy (including the appointment of fund managers);
  - e Other issues.

## **Policy on Interest Rate Exposure**

- 95 As required by section 45 of the Local Government and Housing Act, 1989, the Council must approve before the beginning of each financial year the following treasury management limits:
- a The overall borrowing limit;
  - b The amount of the overall borrowing limit which may be outstanding by way of short-term borrowing;
  - c The maximum proportion of interest on borrowing which is subject to variable rate interest.
- 96 The S151 Officer is responsible for incorporating these limits into the Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the S151 Officer shall submit the changes for approval to Cabinet before submission to the Full Council for approval.

## **Annual Report on Treasury Management activity**

- 97 A summary annual report will be presented to Cabinet and Full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. A full annual report will be presented to BCP Committee. This report will include the following:
- a A comprehensive picture for the financial year of all Treasury Management Policy, Practices and Schedules, plans, activities and results;
  - b Transactions executed and their revenue (current) effects;
  - c Report on risk implications of decisions taken and transactions executed;
  - d Monitoring of compliance with approved policy, practices and statutory / regulatory requirements;
  - e Monitoring of compliance with powers delegated to officers;
  - f Degree of compliance with the original strategy and explanation of deviations;
  - g Explanation of future impact of decisions taken by the Council;
  - h Measurements of performance;
  - i Report on compliance with CIPFA Code recommendations.

## **Management Information Reports**

- 98 Management information reports will be prepared every month by the Treasury Accountant and will be presented to the following officers:
- a Finance Manager;
  - b Assistant Chief Financial Officer;
  - c S151 Officer;
- 99 These reports will contain the following information:
- a Summary of the Authority's financial position for the current year and previous financial years;
  - b Details of all current investments / loans;

- c Details of the Interest Budget and Interest Projections;
- d All notes relevant to the Treasury Management function, including where applicable the reasons behind and the impact of any decisions made.

### **Periodic Monitoring Committee Reports**

- 100 Interim reports will be prepared where significant matters arise that need to be reported to a BCP Committee.

### **TMP7 Budgeting, Accounting and Audit Arrangements**

- 101 The responsible officer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the Treasury Management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk Management, TMP2 Best Value and Performance Measurement, and TMP4 Approved Instruments, Methods and Techniques. The S151 Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting Requirements and Management Information Arrangements.
- 102 The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.
- 103 The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the Treasury Management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

### **Statutory/Regulatory Requirements**

- 104 The treasury management budget and interest budget will be set as part of the Council's main budget setting process as required by the Council. Treasury Management is subject to an annual audit by Internal Auditors and is also audited by External Audit as part of the main financial audit.

### **TMP8 Cash and Cash Flow Management**

- 105 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the S151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the S151 Officer will ensure that these are adequate for the purposes of monitoring compliance as per paragraphs 11-13 Liquidity Risk Management. The present arrangements for preparing cash flow projections, and their form, are set out below.

## **Arrangements for preparing/submitting Cash Flow Statements**

- 106 The Finance Manager with responsibility for treasury management will prepare a rolling cash flow forecast which will cover at least 12 months, based on information gathered from within the Council. This cash flow forecast will be continually updated as new information is received. The cash flow forecast will contain information for every day of the year for all bank accounts.

## **Listing of sources of information**

- 107 Information will be provided to the Treasury Management function by other members of Financial Services and the Council in general.

## **Bank Statements procedures**

- 108 Bank statements are received daily and retained. Summary bank statements are also available in electronic format through the use of treasury management software.

## **TMP9 Money Laundering**

### **Proceeds of Crime Act 2002**

- 109 The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:
- a Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland;
  - b Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property;
  - c Acquiring, using or possessing criminal property.
- 110 Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.
- 111 Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

### **The Money Laundering Regulations 2007**

- 112 In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.
- 113 CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.
- 114 Principle: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of

counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

### **Procedures for establishing identity / authenticity of lenders**

115 The Council does not accept loans from individuals. All loans are obtained from the PWLB, Local Authorities or Other Public Bodies or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1 December 2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on [www.fsa.gov.uk](http://www.fsa.gov.uk)).

### **Methodology for identifying sources of deposit**

116 These will be arranged through authorised money brokers or by direct dealing.

## **TMP10 Staff Training and Qualifications**

### **Details of approved training**

- 117 The Council recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The S151 Officer will recommend and implement the necessary arrangements.
- 118 The S151 Officer will ensure that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.
- 119 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
- 120 The treasury management staff have attended training courses provided both by the Council's advisors and other organisations. The Group Accountant with responsibility for treasury management will ensure that a proactive approach is taken to continually keeping abreast of changes within the treasury management field.

### **Approved Qualifications for Treasury Staff**

- S151 Officer ACCA
  - Assistant Chief Financial Officer CPFA
  - Finance Manager - Technical CPFA
  - Treasury Accountant AAT
- 121 The S151 Officer can determine that an approved qualification is not required if the member of staff has appropriate expertise and knowledge to carry out the responsibilities outlined in the Treasury Management Policy, Practices and Schedules.

## **Statement of Professional Practice (SOPP)**

122 Where the S151 Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

Other staff involved in treasury management activities that are CCAB members must also comply with the SOPP.

### **Member training**

123 Council Members tasked with treasury management responsibilities should be trained in the areas of their responsibility.

Those charged with governance must recognise their individual responsibility and ensure that they have the necessary skills to complete their role effectively.

### **TMP11 Use of External Service Providers**

124 The Council recognises that responsibility for treasury management decisions remains with the authority at all times.

It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Service Director, Strategic Finance.

125 The terms of appointment of all consultants are assessed and properly agreed and documented.

### **Details of Contracts with Service Providers, including Bankers, Brokers, Consultants, Advisers**

- a Banking services
- b Name of main supplier of service - HSBC
- c Contract commenced 1 April 2019
- d Money-broking services - No contract exists
- e Cash/fund management services – No contract exists
- f Consultants'/advisers' services
- g Name of supplier of service – currently under tender
- h Software suppliers – No contract exists
- i Credit rating agencies
- j The Council will make use of any information supplied by Moody's, Standard and Poor's and Fitch

- k Procedures and frequency for tendering services
- l This will be in accordance with the Council's Standing Orders.

## **TMP12 Corporate Governance**

- 126 The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the Treasury Management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 127 The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice as updated. This, together with the other arrangements detailed below, are considered vital to the achievement of proper corporate governance in treasury management, and the S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### **Stewardship responsibilities**

- 128 The S151 Officer ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the Treasury Management function.

### **List of documents to be made available for public inspection**

- 129 The following documents are freely available for public inspection:
- Annual Statement of Accounts;
  - Budget Book;
  - Medium Term Financial Plan (including Capital);
  - Treasury Management Policy, Practices and Schedules;
  - Treasury Management Strategy;
  - Budget monitoring reports;
  - Annual Treasury Report;

## BCP Unitary Authority

### Schedule of key financial decisions made by the four sovereign councils

**Period:** This paper covers all activity from the date of the last Consolidated Medium Term Financial Plan (MTFP) Update report to the BCP Shadow Executive which was the 17 October 2018.

**Value:** A key financial decision is for the purposes of this exercise defined as one in which the total value of expenditure/income is an amount of £500k or more. Areas covered include purchase, disposal and transfer of assets, new contracts with significant on-going financial commitments (but not routine items like care packages), new capital schemes and the use of reserves above those already approved.

#### Items the BCP Shadow Executive have already been consulted upon

##### BCP Shadow Executive 7 November 2018

Ref	Description	Decision Maker	Date	Detail	Financial Implications
A	Hillbourne Masterplan	Poole Cabinet	30 Oct 2018	Delivery of a purpose built two forms of entry primary school on the current site. Surplus land released to deliver housing.	Funded from a combination of the capital receipts generated by the housing development, Section 106 and CIL income, a previous revenue contribution to capital and supported borrowing. Subject to a Section 77 application to the Secretary of State for Education for consent to dispose of surplus school playing field land.
		Poole Council	13 Nov 2018		

Ref	Description	Decision Maker	Date	Detail	Financial Implications
B	Herbert Avenue Temporary Accommodation	Poole Cabinet  Poole Council	30 Oct 2018  13 Nov 2018	24 Unit Temporary Accommodation Development for use by the Council	Budgeted cost of £2.508m funded by borrowing in the Housing Revenue Account.  Annual debt repayment, running costs and income will be factored into the MTFP but should enable Bed and Breakfast cost avoidance.
C	Allocation of Basic Needs Grant for Secondary Schools Expansion Projects	Bournemouth Cabinet  Bournemouth Council	7 Nov 2018  4 Dec 2018	Expansion of four secondary schools to gain five extra forms of entry at this level to support the required demand.	Allocation of £1.4m of Government Education Basic Needs Grant.
D	Local Transport Plan (LTP) Capital Programme 2018/19	Bournemouth Cabinet  Bournemouth Council	7 Nov 2018  4 Dec 2018	Local Transport Plan investment priorities for 2018/19	Allocation of £7.154m of resources most significantly the Government LTP capital grant but also including Local Enterprise Partnership (LEP) grant funding and smaller local resources allocations to specific projects.
E	Future of the Public Health Partnership – Update and Key Issues under Local Government Reorganisation	Joint Public Health Board	24 Sept 2018	Extend the partnership for a minimum of twelve months after LGR.  Approve a procurement for a new model to provide NHS Health Checks with a pan-Dorset budget of £600k per annum	Funded from within the ring fenced public health grant

F	Acquisition of a Care Home	Bournemouth Cabinet	23 Nov 2018	Acquisition of a Care Homes	Funded via prudential borrowing
		Bournemouth Council	4 Dec 2018		

## General Fund

### Category 1 One-off items of revenue or capital expenditure

Ref	Description	Decision Maker	Date	Detail	Financial Implications
G	Millhams Recycling Centre	Bournemouth Cabinet	7 Nov 2018	Additional £600,000 investment in the scheme to meet Environment Agency's requirements.	Funded from the Government Strategic Waste Facilities Grant