Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of Chief Finance Officer

Author: Vicky Worsfold

Tel: 01483 444834

Email: victoria.worsfold@guildford.gov.uk

Lead Councillor responsible: Michael Illman

Tel: 07742 731535

Email: michael.illman@guildford.gov.uk

Date: 18 January 2018

Capital and investment strategy (2018-19 to 2021-22)

Executive Summary

This report is the Council's capital and investment strategy, the capital strategy being a new requirement under the revised CIPFA Prudential Code 2018. The report incorporates the position of the current capital programme and the new capital proposals for the period 2018-19 to 2021-22, and the Treasury Management Annual Strategy Report for 2018-19. These have been presented as separate reports in previous years, but are now being presented together linking investment both in terms of treasury management and assets. The aim is to avoid duplication between the reports, and to strengthen the link between capital spending and the treasury management function.

CIPFA have also revised the Code of Practice on Treasury Management ('TM Code'), alongside the revision to the Prudential Code.

Due to the timing of CIPFA producing the codes, they have acknowledged that the 2018-19 report will be a year of transition, and that full adoption may not be possible until 2019-20. Officers have prepared this report based on CIPFA's indication of the likely content, and councillors are to be made aware that there could be further changes in future years.

Key changes to the Prudential and TM Codes are:

- development of a capital strategy (linking both the codes)
- high level context setting and strategy with key indicators
- confirms the codes applies to all investments (treasury and non-treasury)
- non treasury investments need to be discussed separately in the report
- recognition that for non-treasury investments the principle of placing security and liquidity above yield may not be appropriate in all cases but decisions should be explicit
- delegation of detail, if appropriate, but responsibility remains with full Council
- coverage of group and combined authorities

- encouragement of local indicators - to include HRA indicators
- change in some Prudential Indicators
- requirement for the CFO to report on risks, but flexibility over timing and how they are reported
- designations under the Markets in Financial Instruments Directive (MiFID II)

The Department for Communities and Local Government (DCLG) have also revised their Investment Guidance (last revised in March 2010) and the MRP Guidance (last revised in 2012). The 2010 Guidance was very focused on investments in financial institutions, and as authorities are now increasingly investing in non-financial assets, they need to be brought into the scope of the Guidance. The Guidance retains the requirement for an Investment Strategy to be prepared at least annually (see section 4 of Appendix 1) and approved by Full Council.

At the time of writing the report, the guidance was still out to consultation, key changes will be highlighted once the final guidance has been published.

The Council has a duty under the Local Government Act 2003 to have regard to both the CIPFA Codes and the DCLG Guidance.

In April 2017, the Money Markets Committee (a sub-committee of the Bank of England) published the UK Money Markets Code, which outlines basic market procedures and good practice, for the execution of transactions in the deposit markets, and applies to all UK Market participants, whether or not they are financially regulated, which includes local authorities. CIPFA recommends the UK Money Markets Code to its members as good practice to which they should adhere.

<u>Capital strategy</u>
The aim is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Council also needs to demonstrate that it sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

The capital strategy is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

The Council has an ambitious Corporate Plan, and in order to achieve the targets within that, we need to invest in our assets, via capital expenditure.

<u>Capital programme</u>
The Council has a current underlying need to borrow for the General Fund Capital Programme of £323 million. Officers have put forward bids, with a net cost to the Council of £96 million, increasing the underlying need to borrow to £419 million should these proposals be approved for inclusion in the programme.

Some capital receipts or revenue streams may arise as a result of investment in particular schemes, but in most cases are currently uncertain and it is too early to make assumptions. Some information has been included in the capital vision highlighting the potential income. It is likely there are cash-flow implications of the development schemes, where income will come in after the five-year time horizon and the expenditure will be incurred earlier in the programme.

All projects will be funded by general fund capital receipts, grants and contributions, reserves and finally borrowing. We do not currently know how each scheme will be funded and, in the case of development projects, what the delivery model will be – this budget report, and the capital strategy, shows a high-level position. The capital programme includes a number of significant regeneration schemes, which we have assumed will be financed from the General Fund. However, subject to detailed design of the schemes, there may be scope to fund them from HRA resources rather than General Fund resources in due course. Detailed funding proposals for each scheme will be considered when the Outline Business Case for each scheme is presented to Executive for approval.

Appendices 2 and 3 contain details of the new bids submitted, including the impact of proposed capital expenditure on Council Tax. Appendices 4 to 8 show the position and profiling of the current capital programme (2017-18 to 2021-22) and Appendix 9 the capital vision schemes.

Corporate Management Team (CMT) evaluated each bid, and the Joint Executive Advisory Board Budget Task Group (JEABBTG) have reviewed all bids being submitted as part of this report.

The key areas of growth include:

- A331 hotspots (previously on the capital vision)
- VAT on the crematorium project
- Roads and footpaths

This report also includes the Council's Minimum Revenue Provision (MRP) policy and the Prudential Indicators. The details are in section 6 of the main report. The estimated budget for MRP for 2018-19 to 2020-21 is:

- 2018-19: £1.2 million
- 2019-20: £1.8 million
- 2020-21: £3.3 million

The revised Prudential Code 2017, states that the setting of the capital expenditure estimates, operational boundary and authorised limit should be approved by the same body that approves the budget – therefore full Council as in previous years. However, it allows for other indicators to be delegated to a committee or sub-committee of full Council, although full Council retains overall responsibility. Officers present this report to the Joint Executive Advisory Board, and Corporate Governance and Standards Committee before the Executive and then full Council. In year monitoring is also presented to Corporate Governance and Standards Committee, and therefore believe that there is adequate scrutiny of the other indicators without the need to change the process.

Treasury Management

Treasury management is the control and management of the Council's cash, regardless of its source. It covers management of the daily cash position, investments and borrowing.

The CIPFA definition is "the management of the organisation's borrowing, 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"

Officers carry out the treasury management function within the parameters set by the Council each year in the Treasury Management Strategy Statement (now the capital and investment strategy), included at Appendix 1, and in accordance with the approved treasury management practices (TMPs) (shown in Appendix 11).

The Council considers security, liquidity and yield when making treasury investment decisions, across the portfolio as a whole. The security of the portfolio is the security of our capital, ensuring we get our money back. Liquidity is second to security, ensuring we can get our money, or access to cash, when we need it. Once we are comfortable with both the security and liquidity of the investment in line with a balanced portfolio, we review the return on the investment.

We have defined our minimum credit rating for high quality investment for specified investments as A- for a counterparty. The credit ratings are explained in Appendix 14.

The Government believes that the principal of security, liquidity and yield applies to both financial and non-financial investments.

DCLG proposed guidance (currently out for consultation and is subject to change) has a definition for non-financial assets:

- Security – consideration as to whether the underlying asset is impaired and, if it is, to detail the actions planned or in progress to protect the funds invested
- Liquidity – procedures for ensuring that funds invested in a non-financial asset can be accessed when needed

The Council is in a good financial position, and has a strong asset base. We have an ambitious Corporate Plan and medium to long-term aspirations within the Borough, but we hold a good level of reserves. We will always maintain a certain level of reserves in order to ensure the Council provides services to its residents.

The budget for investment income in 2018-19 is £1.6 million, based on an average investment portfolio of £115 million, at an average rate of 1.63%. The budget for debt interest paid is £6.3 million, of which £5.1 million relates to the HRA.

Non-financial investments

The Council is now required to include details of its non-treasury investments in the annual investment strategy. This includes asset management, investment properties, investments in subsidiary companies and information on the Council's commercialisation and transformation programmes.

This report was considered by the Joint Executive Advisory Board on 8 January 2018 and its recommendations are set out in paragraph 9.1 of this report. The report will also be considered by the Executive on 23 January and Council on 7 February 2018. The Corporate Governance and Standards Committee is asked to comment on the following recommendations:

Recommendation to Executive

The Executive is asked to agree the following:

(1) That the new capital proposals listed as items 23 to 29, in Appendix 2 to this report be added to the General Fund Capital Programme approved list, to be funded by reserves, and that the relevant officer be authorised to implement the schemes.
(2) That the new capital proposal listed as items 1 to 22, in Appendix 2 to this report, be added to the General Fund Capital Programme provisional list, and that these schemes, subject to the limits in Financial Procedure Rules, be subject to a further report to the Executive, before being progressed
(3) That the revenue implications of the new capital schemes referred to in paragraphs (1) and (2) above be implemented in the relevant years stated in the bids.
(4) That the affordability limit for schemes to be funded by borrowing be set as per Appendix 1 para 3.65.

Recommendation to Council:

The Executive also is asked to recommend to Council:

(1) That the General Fund capital estimates, as shown in Appendices 4 and 5 (current approved and provisional schemes, and as amended to include such bids as may be approved by the Executive at its meeting on 23 January 2018, Appendix 6 (schemes funded from reserves) and Appendix 7 (s106 schemes), be approved.
(2) That the Minimum Revenue Provision policy, referred to in Section 6 of this report, be approved.
(3) That the Capital and Investment strategy be approved, specifically the Investment strategy and Prudential Indicators contained in Appendix 1.
(4) That the Treasury Management Practices be approved with delegation of future changes to the practices to the Chief Finance Officer, contained in Appendix 11.

Reasons for Recommendation:

- To enable the Council to approve the capital and investment strategy and the treasury and prudential indicators for 2018-19 to 2022-23

- To enable the Council, at its budget meeting on 7 February 2018, to approve the funding required for the new capital investment proposals.

1. Purpose of Report

1.1 The Local Government Act 2003 requires the Council to have regard to the CIPFA Treasury Management Code of Practice ("TM Code"), and specifically the

Prudential Code when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable. The Prudential Indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable.

1.2 The Prudential Code now requires the Council to produce a capital strategy. The purpose of the capital strategy is to describe how the investment of capital resources will contribute to the achievement of the Council's key objectives and priorities, and to describe the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.3 As such, the report also invites the Council to consider the General Fund (GF) Capital Programme, and the new schemes the Council may need or wish to undertake in the next five years.

1.4 The Council must put aside resources where the Council finances capital expenditure by debt (internal or external borrowing), to repay that debt in later years. This cost is charged to the revenue account annually, and forms part of the Council Tax cost to taxpayers and is known as Minimum Revenue Provision (MRP). The annual MRP statement for 2018-19 is included in this report.

1.5 The Council must have an approved investment strategy, and the implications associated with that detailed in the capital strategy. This includes financial and non-financial assets, for example, investment property.

1.6 The requirement to report in accordance with the CIPFA TM Code, and the DCLG Investment Guidance is incorporated in the report. CIPFA also recommends the UK Money Markets Code to its members as good practice to which they should adhere.

2. Strategic Priorities

2.1 A comprehensive and well-managed capital programme supports all the fundamental themes of the Corporate Plan and the Council's strategic priorities.

2.2 Treasury management is a key function in enabling the Council to achieve financial excellence and value for money. This report, and the strategies within it, is designed to help the Council achieve the best use of its resources and it therefore underpins the Council's strategic framework and delivery of the Corporate Plan. We have an ambitious Corporate Plan in the period, and therefore the capital programme, plus aspirations for the longer-term and effective treasury management supports the financial sustainability of that.

3. Background

3.1 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code for both capital and treasury management purposes.

3.2 The objectives of the Prudential Code are to ensure, within a clear framework, capital expenditure plans of local authorities are affordable, prudent and sustainable. This then ties treasury management in with the Prudential Code ensuring that treasury management decisions are taken in accordance with good professional practice and that capital investment decisions are taken once the Council has determined how much money it can afford to borrow for a capital purpose.

3.3 The UK Money Markets Code (April 2017) is a voluntary code of practice which CIPFA recommends authorities follow as good practice. It is endorsed by the Money Markets Committee (MMC), and has been developed to provide a common set of principles in order to promote the integrity and effective functioning of the UK money markets.

3.4 It applies to the following which together constitute, for the purposes of this code the UK Market:

a) the execution of transactions in the deposits market
b) the repo market
c) securities lending transactions as transacted in the UK

3.5 The details of the principles in the Money Markets Code, can be found in Appendix 12.

3.6 To demonstrate that the Council has fulfilled these objectives, section 5 of this report details the Prudential Indicators that must be set and monitored each year.

3.7 The CIPFA Prudential Code, requires local authorities to determine a capital and Investment strategy, having regard to:

<u>Capital expenditure</u>

- an overview of the governance process for approval and monitoring of capital expenditure
- a long-term view of capital expenditure plans
- an overview of asset management planning
- any restrictions around borrowing or funding of ongoing capital finance

<u>Debt and borrowing and Treasury Management</u>

- a projection of external debt and use of internal borrowing to support capital expenditure
- provision for the repayment of debt over the life of the underlying asset
- authorised limit and operational boundary for the following year
- the approach to treasury management including processes, due diligence and defining the risk appetite

<u>Commercial Activity</u>

- the Council's approach to commercial activities, including processes, ensuring effective due diligence and defining the risk appetite, including proportionality in respect of overall resources.

<u>Other long-term liabilities</u>

- an overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities

<u>Knowledge and skills</u>

- a summary of the knowledge and skills available to the Council and confirmation that these are commensurate with the risk appetite.

3.8 Local authorities need to have the use of sufficient capital assets to deliver their responsibilities in an efficient, effective and economic manor.

3.9 The TM Code has three key principles:

- public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities
- policies and practices should make clear that the effective management and control of risk are prime objectives of treasury management activities, and the risk appetite should be identified in the annual strategy
- acknowledgment that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for organisations to employ in support of their business and service objectives; and that within the context of effective risk management, the treasury management policies and practices should reflect this.

3.10 Within the TM Code, and specified in the Treasury Management Policy Statement (Appendix 10), officers must maintain '*suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control these activities'*. Appendix 11 contains the latest TMPs for councillors' approval and it is suggested that delegation to make further changes to the TMPs be given to the CFO, because the TMPs govern how the treasury management function will be run operationally, and Councillors approve the strategy it seems appropriate to have a distinction between approval levels.

3.11 We must put aside resources where the Council finances capital expenditure by borrowing (internal or external), to repay that debt in later years. This cost is charged to the revenue account annually and is known as Minimum Revenue Provision (MRP). The annual MRP statement for 2018-19 is included in section 6 of this report. There is not an earmarked reserve for MRP, it is represented in the balance sheet as increased cash.

3.12 Due to the specialised nature of treasury management and capital finance, there is a glossary of terms at Appendix 16.

4. Capital programme

4.1 The Council has an ambitious Corporate Plan and medium to long-term aspirations within the Borough. As such, we have an approved capital programme, and ask officers to submit bids for capital funding each year covering at least a five-year period. These bids are linked to the Corporate Plan and the Council's strategic priorities.

4.2 Any projects that are expected to be delivered after the five-year period, or those where a scheme has not been fully identified are placed on the Council's Capital Vision (see Appendix 9). The vision enables us to model the potential financial impact of these schemes, and be aware of the potential schemes to be brought forward onto the GF capital programme in future. We use this information to model the long-term impact of the programme in the liability benchmark.

4.3 Many of the bids in the programme are development projects, and their expenditure and income profile could span beyond the five-year timeframe in the report. This report, therefore, shows a prudent capital programme. Any income arising as a result of a development project that is outside the five-years, or is currently only estimated, is shown in the capital vision. Any development projects will be subject to a thorough business case, which will assess the delivery model, and officers will ensure that they are financially viable before they can proceed.

4.4 The Council has a current underlying need to borrow for the General Fund Capital Programme of £323 million. Officers have put forward bids, with a net cost to the Council of £96 million, increasing the underlying need to borrow to £419 million should these proposals be approved for inclusion in the programme.

4.5 Some capital receipts or a revenue stream may arise as a result of investment in particular schemes, but in most cases are currently uncertain and it is too early to make assumptions. Some information has been included in the capital vision highlighting the potential income. It is likely there are cash-flow implications of the development schemes, where income will come in after the five-year time horizon and the expenditure will be incurred earlier in the programme

New capital schemes

4.6 We asked officers to submit capital bids as part of the service plan and business planning process to be assessed against the Council's corporate plan priorities and fundamental themes whilst having regard to our underlying need to borrow for the current capital programme.

4.7 Appendix 2 provides a summary of the new capital bids submitted with further information for each scheme in Appendix 3. Corporate Management Team (CMT) evaluated the bids, and those supported are included for submission to councillors. Four of the bids are, at this stage, confidential and can be found in the "Not for Publication" agenda item 8 on the Joint EAB's agenda.

4.8 Following this evaluation, the Joint Executive Advisory Board Budget Task Group (JEABBTG) reviewed the bids, and were broadly supportive with queries to be answered by officers. It is anticipated to provide the answers to these at the meeting.

4.9 Appendix 2 includes new schemes submitted with a net cost of £96 million, after taking into account estimated third party contributions, financing from specific reserves and any bids currently in the capital programme. If councillors decide to progress any of these schemes, we will add them to the current capital programmes, which are attached as Appendices 5 to 7.

4.10 There is an underlying need to borrow to meet the current GF capital programme of £323 million for 2017-18 to 2021-22 (excluding the new bids detailed in this report). The revised underlying need to borrow after taking account of the new bids is £419 million.

4.11 For planning purposes, we have currently assumed we will borrow internally for all schemes, but in doing so are projecting a need to borrow externally (see para 5.11). The most economically advantageous method of financing (use of available capital resources, external borrowing or leasing) will be determined in the year(s) in which we incur the expenditure. This is part of the day-to-day treasury management activity of the Council and depends on the resource available.

4.12 It is important to include schemes in the provisional programme so the Council can produce a realistic five-year programme, and include the financial implications in the outline budget. It also gives councillors an indication as to what schemes are being investigated, and when they may be progressed.

4.13 Officers have a capital vision that will incorporate long-term schemes identified in documents such as the Corporate Plan, SCC Local Transport Plan, the Council's Regeneration Strategy, Local Plan and the emerging Infrastructure Delivery Plan. This will enable us to model the potential financial impact of these schemes, and be aware of the schemes that are likely to be brought forward onto the GF capital programme in the future.

Current approved and provisional GF capital programme (Appendices 4 and 5)

4.14 A copy of the current GF capital programme is attached at Appendices 4 and 5, together with a schedule of the latest position of the resource availability for, and financing of, the programme, shown in Appendix 8.

4.15 The revised estimate for 2017-18 shows the original approved estimate plus any unspent approved expenditure in 2016-17 now planned for 2017-18 and any amendments or additions to the schemes approved during the course of the year.

4.16 Appendix 8 shows the current estimated borrowing requirement for schemes on the GF capital programme is £323 million at as November 2017.

GF reserve schemes capital programme (Appendix 6)

4.17 The Council holds some reserves that we earmark for use by specific reserves. The capital projects that we finance from these reserves are identified separately from the main programme and are shown in Appendix 6.

4.18 The major items include car parks and ICT renewals.

4.19 The ICT renewals fund has been in place for many years, is well managed, and supports many projects. Business cases are submitted during the year, to the ICT Manager, and projects are then prioritised.

S106 financed capital expenditure (Appendix 7)

4.20 The schemes to be financed from s106 contributions are shown in Appendix 7. These schemes are not progressed until the s106 receipt is in hand.

Financing and resources

4.21 The actual financing of each year's capital programme is determined in the year in question as part of the preparation of the Council's statutory accounts.

4.22 If we do not finance the expenditure from existing resources, for example capital receipts or reserves, it will create a borrowing requirement. If we take out physical loans to meet that borrowing requirement (replacing cash we have spent), then external borrowing is in place. If there are no physical loans then the Council has internal borrowing. This means that we are using cash relating to items in the balance sheet in the interim for capital funding purposes.

4.23 All projections are based on the current estimates for schemes and level of resource availability. If costs increase, and/or additional capital resources are received, the methods of financing and the level of borrowing required will vary accordingly.

4.24 Officers calculate the interest estimates (both investment and borrowing interest) according to planned capital expenditure. We make an assumption around actual expenditure of 50% of the provisional programme in the finance year. This also feeds into the MRP calculations, and the liability benchmark. We have introduced this change to ensure we are not being over prudent in our budgeting.

5. Prudential Indicators

5.1 The Local Government Act 2003 requires the Council to have regard to the Prudential Code when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that:

- the capital expenditure plans of local authorities are affordable, prudent and sustainable
- treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved

- how these risks will be managed to levels that are acceptable to the organisation
- capital investment decisions are taken once the Council has determined how much money it can afford to borrow for a capital purpose

5.2 The Prudential Code covers all capital expenditure and investment decisions and should take into account all potential long-term liabilities relevant to the authority. This includes the consideration of investments and liabilities of subsidiary companies.

5.3 The responsibility for decision-making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including Prudential Indicators, remains with full Council. However, officers present the report to the Joint EAB, and Corporate Governance and Standards Committee before the Executive and full Council, enabling a broad range of Councillor scrutiny. Monitoring is undertaken by the Corporate Governance and Standards Committee regularly throughout the year.

5.4 To demonstrate we have fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

5.5 The Council's capital expenditure plans are a key driver of treasury management activity. The outputs of the capital expenditure plan are reflected in prudential indicators, which are designed to assist councillors when making decisions.

Estimates of capital expenditure

5.6 This indicator is a summary of the Council's GF capital programme, and financing of the programme is summarised below:

CAPITAL EXPENDITURE SUMMARY	2017-18 Approved £000	2017-18 Outturn £000	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000	2021-22 Estimate £000	2022-23 Estimate £000
General Fund Capital Expenditure							
- Main Programme	45,916	26,627	39,140	23,129	5,220	5,220	0
- Provisional schemes	51,850	2,773	43,460	83,003	66,970	45,762	51,774
- Schemes funded by reserves	1,573	3,316	2,302	537	537	0	0
- S106 Projects	440	602	0	0	0	0	0
- Affordable Housing (General Fund)	220	0	0	0	0	0	0
- New Bids (net cost)	0	0	7,125	47,994	35,105	400	5,550
Total Expenditure	**99,999**	**33,318**	**92,027**	**154,663**	**107,832**	**51,382**	**57,324**
Financed by :							
Capital Receipts	(330)	(324)	(4,000)	(9,200)	(9,075)	(16,000)	0
Capital Grants/Contributions	(3,982)	(3,432)	(1,221)	(2,250)	(4,750)	(1,750)	0
Capital Reserves/Revenue	(7,973)	(9,371)	(13,980)	(757)	(757)	(220)	0
Borrowing	(87,714)	(20,192)	(72,826)	(142,456)	(93,250)	(33,412)	(57,324)
Financing - Totals	**(99,999)**	**(33,318)**	**(92,027)**	**(154,663)**	**(107,832)**	**(51,382)**	**(57,324)**
Housing Revenue Account Capital Expenditure							
Total Expenditure	**21,970**	**9,172**	**21,186**	**25,145**	**11,475**	**5,975**	**6,975**
Financed by :							
- Capital Receipts	(4,974)	(1,623)	(5,113)	(6,151)	(2,050)	(400)	(700)
- Capital Reserves/Revenue	(16,996)	(7,548)	(16,073)	(18,994)	(9,425)	(5,575)	(6,275)
Financing - Totals	**(21,970)**	**(9,172)**	**(21,186)**	**(25,145)**	**(11,475)**	**(5,975)**	**(6,975)**

5.7 Initially we will finance capital expenditure from our own resources. If we do not have enough resources to finance all the planned expenditure, there will be an increase in the underlying need to borrow, and therefore the Capital Financing Requirement (CFR).

5.8 The table shows the majority of our capital expenditure will be financed from borrowing because we have used our capital receipts and capital reserves.

Estimates of CFR and Gross debt as shown against the CFR

5.9 The Council is required to make reasonable estimates of the total CFR over at least the forthcoming year and the following two years.

5.10 The CFR measures the Council's underlying need to borrow for a capital purpose, and is the historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

5.11 Any estimated capital expenditure in the table above which is shown to be funded from borrowing, will also increase the CFR.

Guildford Borough Council Balance Sheet Summary and Projections in £000 - last updated 16 Dec 2017							
31st March:	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Loans Capital Financing Req.	266,839	290,457	359,883	504,151	594,693	625,464	665,297
Less: External Borrowing	(233,355)	(225,125)	(192,895)	(192,665)	(192,435)	(147,435)	(147,435)
Internal (Over) Borrowing	**33,484**	**65,332**	**166,988**	**311,486**	**402,258**	**478,029**	**517,862**
Less: Usable Reserves	(141,824)	(131,385)	(118,258)	(110,742)	(114,089)	(120,542)	(123,430)
Less: Working Capital Surplus	(18,646)	(18,646)	(18,646)	(18,646)	(18,646)	(18,646)	(18,646)
(Investments) / New Borrowing	**(126,986)**	**(84,699)**	**30,084**	**182,098**	**269,523**	**338,841**	**375,786**
Net Borrowing Requirement	106,369	140,426	222,979	374,763	461,958	486,276	523,221
Preferred Year-end Position	20,000	25,000	25,000	25,000	25,000	25,000	25,000
Liability Benchmark	**126,369**	**165,426**	**247,979**	**399,763**	**486,958**	**511,276**	**548,221**

Housing Revenue Account - Summary and Projections in £000							
HRA Loans CFR	196,664	196,664	197,024	197,024	197,024	197,024	197,024
HRA Reserves	(102,019)	(96,033)	(84,571)	(76,623)	(80,187)	(85,499)	(90,495)
HRA Working Capital	0	0	0	0	0	0	0
HRA Borrowing	(193,355)	(193,125)	(192,895)	(192,665)	(192,435)	(147,435)	(147,435)
HRA Cash Balance	**(98,710)**	**(92,494)**	**(80,442)**	**(72,264)**	**(75,598)**	**(35,910)**	**(40,906)**

General Fund - Summary and Projections in £000							
31st March:	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
GF Loans CFR	70,175	93,793	162,859	307,127	397,669	428,440	468,273
GF Reserves	(39,805)	(35,352)	(33,687)	(34,119)	(33,902)	(35,043)	(32,935)
GF Working Capital	(18,646)	(18,646)	(18,646)	(18,646)	(18,646)	(18,646)	(18,646)
GF Borrowing	(40,000)	(32,000)	0	0	0	0	0
GF Cash Balance	**(28,276)**	**7,795**	**110,526**	**254,362**	**345,121**	**374,751**	**416,692**

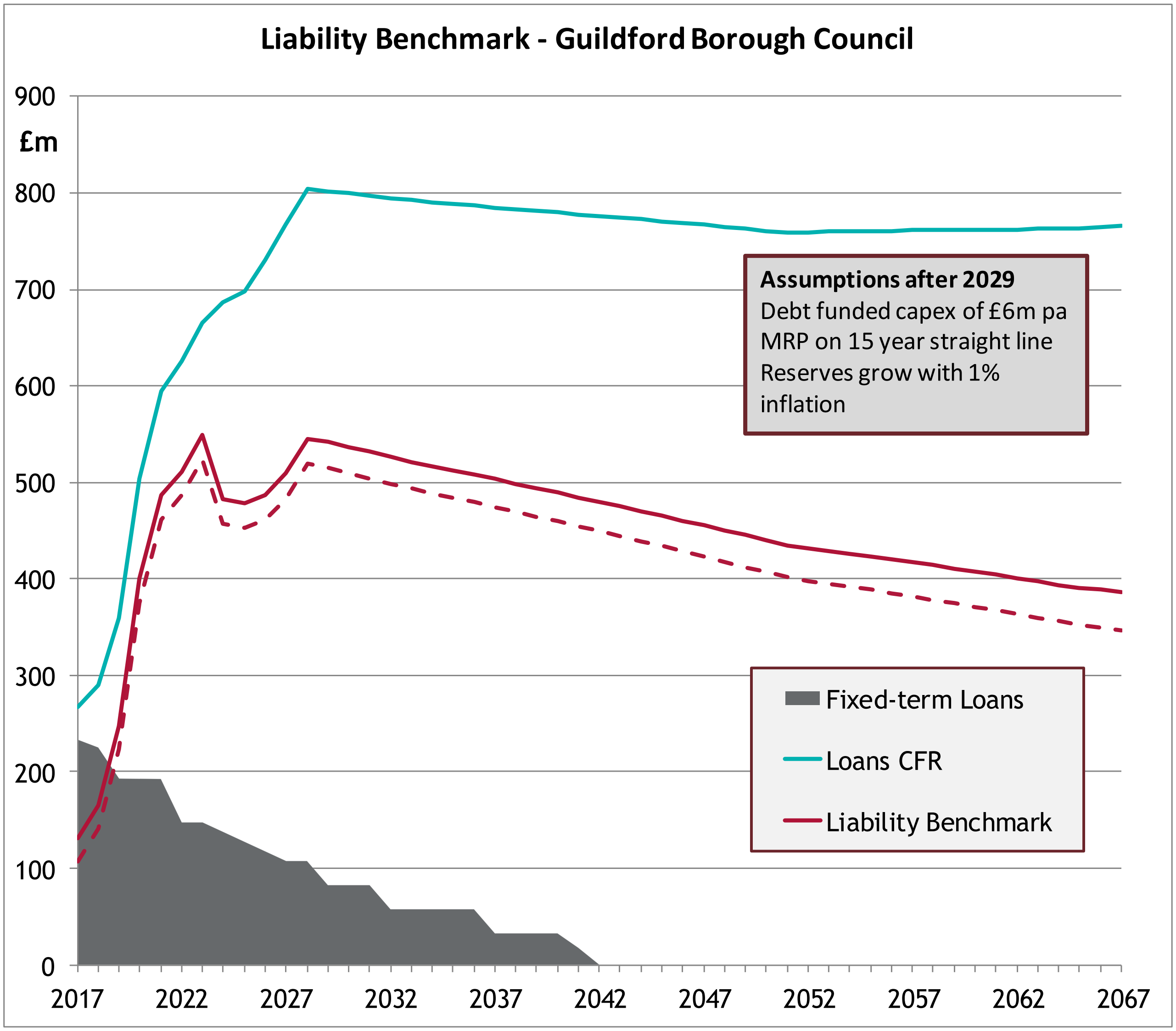
5.12 The GF CFR is forecast to increase by £374.5 million over the period, as capital expenditure financed by borrowing is greater than resources put aside for debt repayment.

5.13 The Council is required to pay off an element of the accumulated GF capital expenditure each year through a charge to the revenue account called the Minimum Revenue Provision (MRP), although we can also make a Voluntary Revenue Provision (VRP) if we so wish.

5.14 Gross debt against the CFR is a key indicator of prudence. The aim is to ensure that debt does not, except in the short-term, exceed the total of the CFR in the previous year plus the estimates of any additional CFR for the current and next two financial years. This is to ensure long-term debt is only for a capital purpose.

5.15 The table above shows that debt is expected to remain below the CFR during the period show.

5.16 The liability benchmark shown in graphical form is:



5.17 The difference between the liability benchmark (solid red line) and the red dotted line is our minimum liquidity requirement of £25 million. This graph clearly shows that while the CFR is stable, based on future assumptions, the liability benchmark is reducing in line with assumed increases in reserves and MRP payments.

Operational boundary for external debt

5.18 The operational boundary is a monitoring indicator that shows the most likely (i.e. prudent), but not worst-case estimate for external debt, for the years shown. It directly links to the Council's capital expenditure plans, the CFR and cash-flow requirements. It is a key management tool for in-year monitoring. Other long-term liabilities include finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary of External Debt	2017-18 Approved £000	2017-18 Revised £000	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000	2021-22 Estimate £000	2022-23 Estimate £000
Borrowing - General Fund	252,616	167,856	312,126	402,666	433,436	473,276	494,456
Borrowing - HRA	197,024	197,024	197,024	197,024	197,024	197,024	197,024
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**475,640**	**390,880**	**535,150**	**625,690**	**656,460**	**696,300**	**717,480**

5.19 The table represents the current debt portfolio and a maximum amount of assumed temporary borrowing that may be required in the year. It is not a limit of total borrowing for the Council.

5.20 It is calculated by taking the estimated CFR plus an allowance for headroom for cash movements. The HRA operational boundary is limited to the HRA debt cap, and £26 million is included for purchases that could be classes as finance leases.

Authorised limit for external debt

5.21 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003, and is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for any unusual cash movements.

Authorised Limit for External Debt	2017-18 Approved £000	2017-18 Revised £000	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000	2021-22 Estimate £000	2022-23 Estimate £000
Borrowing - General Fund	302,816	212,456	368,526	463,166	499,536	530,376	566,556
Borrowing - HRA	197,024	197,024	197,024	197,024	197,024	197,024	197,024
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**525,840**	**435,480**	**591,550**	**686,190**	**722,560**	**753,400**	**789,580**

5.22 The GF authorised debt level gives headroom for significant cash flow movements, over the operational boundary, for example if we do not receive Council Tax on the correct day. The HRA limit is set at the debt cap imposed by the Government.

5.23 We are required to set a limit for other long-term liabilities, for example finance leases. £26 million has been included in the authorised limit for purchases that could be classed as finance leases.

5.24 Officers monitor the authorised limit on a daily basis against all external items on the balance sheet (long and short-term borrowing, overdrawn bank balances and long-term liabilities).

Ratio of financing costs to net revenue stream

5.25 This is an indicator of affordability and highlights the revenue implications of the capital programme, by identifying the proportion of the revenue budget required to meet financing costs associated with capital spending, net of investment income.

5.26 The net revenue stream is the amounts received from government grants and local taxpayers, and on an actual basis the taxation and non-specific grant income part of the comprehensive income and expenditure statement.

5.27 Where the figures are negative, it means that interest receivable is higher than interest payable.

	2017-18 Approved	2017-18 Outturn	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
General Fund	9.16%	-0.96%	10.61%	24.76%	31.88%	59.20%	64.50%
HRA	30.13%	32.86%	33.09%	33.73%	33.97%	33.59%	33.41%

5.28 The GF outturn for 2017-18 is lower than estimate because investment income is anticipated to be higher than budgeted due to more cash than expected in the year, and interest paid on borrowing lower due to slippage in the capital programme and anticipated long-term loans were not taken out. The 2018-19 estimate is higher than the 2017-18 outturn rate because of the increasing MRP and reducing cash balances. The large increase from 2019-20 relates to an increase in the MRP budget and a large increase in interest payable on external borrowing – a direct result of the increasing capital expenditure.

5.29 The HRA indicator is reducing slightly because of the reducing debt interest costs as one of the Council’s loans is being repaid, and interest on HRA reserves is increasing in line with expected balances in reserves.

6. Annual Minimum Revenue Provision (MRP) Statement 2017-18

6.1 Where the Council finances capital expenditure by debt (internal or external borrowing), the CFR will increase and we must put aside resources to repay that debt in later years, known as MRP.

6.2 The Local Government Act 2003 requires the Council to have regard to the DCLG’s Guidance on MRP most recently issued in 2012 and revised in 2018.

6.3 The DCLG Guidance aims to ensure that debt, from capital expenditure, is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

6.4 The DCLG Guidance is currently out for consultation. To avoid making assumptions around the outcome of the consultation, if the Council needs to revise its MRP policy, it will do so as part of the Treasury Management Annual Report presented to Council in July 2018.

6.5 It also requires the Council to approve an annual MRP statement and recommends a number of options for calculating a prudent MRP.

6.6 Unfinanced capital expenditure incurred in 2017-18 will not be subject to an MRP charge until 2018-19, or if the scheme is not complete, when the asset is operational.

6.7 MRP only applies to the GF. There is no requirement to make an MRP charge on the HRA.

6.8 Based on the Council's estimate of its CFR on 31 March 2018, and unfinanced capital expenditure in 2017-18 of £24.1 million, the budget for MRP for 2018-19 has been set at £1.2 million.

6.9 We base the future projections on the capital programme spending profile. Based on the current approved capital programme, and the new bids submitted as part of this report, we anticipate MRP to be:

- £1.2 million in 2019-20
- £1.8 million in 2020-21
- £3.2 million in 2021-22
- £6.6 million in 2022-23

6.10 Profiling of capital expenditure is key in determining the impact of MRP on the revenue account.

MRP Policy

6.11 The Council will use the asset life method as its main method of applying MRP, but will use the annuity method for investment property.

6.12 Where appropriate, for example in relation to capital expenditure on development, we may use an annuity method starting in the year after the asset becomes operational.

6.13 Where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained. Therefore, where construction, major refurbishment or redevelopment of an asset occurs, we will not charge MRP during the period of construction, refurbishment or redevelopment. MRP will not be charged from the date a property is vacant (as long as the development starts within 12 months of the vacation date). MRP will be charged in the financial year after the asset has returned to operational use.

6.14 Where expenditure on schemes are pending receipt of an alternative source of finance (for example capital receipts), we will not charge MRP.

6.15 The MRP guidance recommends a life of 50-years for freehold land. However, we feel that as land often has an infinite economic life, charging MRP over 75 years is more realistic whilst maintaining prudency. If we were to purchase land for development purposes, we will also apply an estimated life of 75 years, which is at least as great as it will be if a new building was placed on it. We believe that new buildings or similar structures will have an estimated life of 75 years.

6.16 Where loans are made to other bodies for their capital expenditure, no MRP will be charged, where the other body is making principal repayments of that loan as well as interest. However, the capital receipts generated by the loan principal repayments on those loans will be put aside to reduce the CFR.

6.17 For investments in shares classed as capital expenditure, we will apply a life related to the underlying asset the share capital has been invested in.

6.18 For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

6.19 We will apply a prudent approach to determining which schemes are financed from capital resources and which ones will be subject to MRP. For example, we feel it is prudent to apply capital resources to those schemes that have a shorter estimated life. We will determine this annually as part of closing the accounts.

6.20 Estimated life periods will be determined under delegated powers to the Chief Finance Officer. Officers will use information from the Council's valuer to determine asset lives as part of the annual valuation exercise for investment property, and will use the estimated life for other assets as stipulated by the valuer or relevant expert for depreciation purposes. As a general rule, the asset life for MRP will be matched to the life used for depreciation purposes.

7. Treasury Management

7.1 The CIPFA definition of treasury management is

"the management of the organisation's borrowing, investments[1] *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"*

7.2 Overall responsibility for treasury management remains with the Council. Treasury management activity involves risk. The effective identification and management of risks are integral to the Council's treasury management objectives, as is ensuring that borrowing activity is prudent, affordable and sustainable.

7.3 The strategy takes into account the impact of the Council's revenue budget and capital programme on the balance sheet position, the current and projected treasury position, the investment strategy and treasury and prudential indicators' (Appendix 1) and the outlook for interest rates (Appendix 13).

[1] Investments cover all the financial assets of the organisation, as well as other non-financial assets, which the Council holds primarily for financial returns, such as investment property portfolios. This could include investments not managed as part of the treasury management function. All investments require an appropriate investment management and risk management framework under the TM code.

7.4 The key changes to the strategy from last year are:

- incorporation of the capital programme reports with the treasury management strategy to create a Capital and Investment Strategy.
- removal of the prudential indicator – impact on council tax decisions (in line with the proposed new CIPFA code)
- inclusion of more local indicators
- inclusion of the Treasury Management Practices (TMPs) for approval by Councillors

Credit rating

7.5 The Council's credit rating with Moody's credit rating agency is Aa2 (see Appendix 14 for credit rating definitions). Having a rating gives us the flexibility and greater access to a range of funding such as capital markets, which will enable us to borrow for capital projects elsewhere other than the Public Works Loans Board (PWLB) at possibly cheaper rates.

7.6 The credit rating also acts as an independent financial review of the Council. It is a good way of assessing how the Council is performing and the strength of our balance sheet.

7.7 Moody's undertake an official annual review of our credit rating. Ours is due for renewal in March 2018. We are anticipating renewing our rating in 2018.

Commercial activity

7.8 The Council has a transformation programme and commercialisation work stream. Work on these areas will continue to be progressed and will be reported to Councillors.

7.9 The Council is not intending on purchasing investment property purely for financial gain, instead has budgets in the capital programme for strategic property purchases, which may generate a financial return, in relation to its regeneration plans in line with the Corporate Plan.

7.10 Where the Council has investment property, the performance is reviewed regularly and a report presented to councillors annually.

Other long-term liabilities

7.11 This includes liabilities, which are outstanding under credit arrangements, and are separate to external borrowing, and is required to be included in the Prudential Indicators.

7.12 On the face of the Council's balance sheet there is £93 million of other long-term liabilities, which relate wholly to the pension reserve and is therefore excluded from this definition related to treasury management.

7.13 Whilst the Council does not have any at present, we include £26 million in the Prudential Indicators as a budget for leasing.

Knowledge and Skills

7.14 We assess training requirements for the Council's treasury management staff throughout the year, and additionally when the responsibilities of individual members of staff change.

7.15 Staff regularly attend training courses, seminars and conferences provided by Arlingclose, CIPFA and other appropriate bodies. Relevant staff are encouraged to study professional qualifications from CIPFA, the association of Corporate Treasurers and other appropriate organisations.

7.16 Day-to-day treasury staff, the CFO, the Director of Resources, the Managing Director, the Lead Councillor for Finance and Asset Management, and the Chairman of the Corporate Governance and Standards Committee attend the quarterly strategy meetings with Arlingclose. This involves an economic update as well as discussions around the Council's balances, and investment and borrowing strategies and opportunities.

7.17 The Lead Councillor for Finance and Asset Management, along with the senior officers of the Council, are briefed and updated on treasury management matters as and when required.

7.18 Councillors undertake training as and when required, for example when there is a change in committee membership, and on an ad-hoc basis when appropriate. This may be formal training undertaken by Arlingclose, or bite sized sessions from officers.

7.19 Under the new MiFID regulations, in order for the Council to be able to "opt-up" to professional status, the Council is required to state the knowledge and skills of key staff involved in the treasury decision making – this is a mandatory criterion. Financial institutions decide whether the Council can opt-up, and there is comfort in that where the Council is accepted as a professional client, we have the required level of skills and knowledge expected by the financial institution of key treasury staff.

7.20 A central register has been set up to record which officers and councillors have attended training. Councillor training records are held by Democratic Services, and officer training in financial services.

Risks

Capital programme

7.21 Officers submit bids with a proposed timeframe for the project to be completed. This is put into the capital programme and feeds into the liability benchmark (to determine when we may need to borrow at a high level), cash flow forecasts (projecting investment income and possible borrowing costs feeding into the medium term financial strategy) and the MRP projections (again, feeding into the medium term financial strategy).

7.22 The capital programme predicts the Council's underlying need to borrow. This is the starting point to determine whether the Council needs to borrow externally, and for what period. If the profiling of the capital programme is significantly wrong, this means the Council will have budgeted less investment income, more external borrowing interest and more MRP than it needed to. All these are a cost to the revenue budget.

7.23 Officers are working to minimise this impact, and meet on a quarterly basis to review the capital programme and adjust the profiling. The medium term financial strategy is updated continually with the latest interest and MRP projections taking account of the latest capital programme profile to ensure the most realistic position is presented in the revenue budget.

7.24 Slippage in the capital programme could also mean costs are higher than originally budgeted because of price inflation, and changing market conditions.

Treasury management risks

7.25 Overall responsibility for treasury management remains with the Council. Treasury management activity involves risk. The effective identification and management of risks are integral to the Council's treasury management objectives.

7.26 Treasury management activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk. Treasury risk cannot be eliminated; it needs to be managed, and the management is discussed throughout the capital and investment strategy, in Appendix 1.

7.27 There are a number of key risks which are discussed in more detail in the Treasury Management Practices (TMPs) (Appendix 11), and are discussed in the Council's Statement of Accounts.

7.28 Inflation risk is also a key factor. Investments are made and earn a return. If inflation is high, and investment returns are low, the investment return is not keeping up with inflation, and the Council is, therefore, losing money.

Bail in and Ringfencing risk

7.29 Councillors will be aware of bail in, and the implications for the Council. The next stage of that process, is bank ring-fencing. From January 2019, the largest UK Banks will be required to separate their retail banking services to individuals and small businesses from their investment banking activities. Banks with less than £25 billion in Financial Services Compensation Scheme covered retail deposits are exempt, or those that only undertake retail banking, so will only affect Barclays, Lloyds, HSBC and RBS. It is expected, however, that the banks will have implemented the changes during 2018, and it will therefore impact on the timeframe of this strategy.

7.30 In general terms, the probability of a bail-in is smaller at a retail bank, but the loss incurred would likely be larger. This is because retail banks will typically have more capital to protect against losses, but fewer wholesale deposits and senior unsecured bonds to share losses with.

7.31 Each bank will have a different procedure, and we could be put in the retail bank of one bank, and an investment bank of another. The splits are not yet certain, and we cannot choose.

7.32 Because the banks are being split, this will mean some name changes – yet to be determined. In addition, credit rating agencies are starting to take account of banks' ringfencing in their ratings. In general, they expect to give the ringfenced "retail" bank a higher credit rating than the non-ringfenced "investment" bank.

7.33 An investment made now, could be transferred into a new bank with a different credit rating within the next year. This risk has been reflected in the operational duration limits recommended by Arlingclose during 2017-18. They will review the position again in early 2018, and could reduce the duration further if there are concerns about the uncertainty of the bank's ringfencing plans.

Risks relating to non-financial assets

7.34 There are some key identifiable risks of investing in property.

7.35 A downturn in the property market could lead to falling rents or higher vacancies meaning that rental income may not cover the borrowing costs.

7.36 In addition, a downturn could lead to a fall in property values which could impact capital receipts if the Council wanted to sell the property to use the receipt for other purposes.

7.37 The Council mitigates these by having a diverse investment property portfolio, a review of tenant covenant strength prior to becoming a tenant, including a review of the company finances and credit checks. The Council will also request rent deposits where appropriate.

7.38 The Government could intervene to set limits on the commercialisation strategies available to local authorities. CIPFA and the DCLG in their consultations have included non-treasury investments into their guidance which includes monitoring of investment properties and investments in subsidiaries, ensures councils are fully aware of the risks involved and also asks councils to review the proportionality of this type of investments against other income the Council receives to highlight the reliance on commercial income. As mentioned earlier, the DCLG Guidance is still out to consultation and could change the emphasis from what is included in this report.

7.39 The Council is required to review training and expertise in relation to non-treasury investments and provide information on how this expertise will be gained and what due diligence will be undertaken.

7.40 The Council is not anticipating on purchasing any investment property purely for rental income returns. The aim is now more focussed on strategic purchases (for which a rental income may be received) to aid regeneration in the borough.

8. Consultations

8.1 The new capital bids have been reviewed by the JEABBTG, and their comments are set out in Appendix 15.

8.2 The Lead Councillor for Finance and Asset Management supports the recommendations in this report.

9. Joint Executive Advisory Board comment

9.1 The Joint EAB considered this report at its meeting on 8 January 2018 and its recommendations are as follows:

(1) That, in respect of Bid No 268 – Student Accommodation Investment, the Joint EAB recommends:

(a) that the Business Case be submitted to the Borough EAB for further discussion prior to its consideration by the Executive; and
(b) that, following consideration by the Executive, the Business Case be referred to Full Council for final approval before the project is transferred from the provisional to the approved capital programme.

(2) That, in respect of Bid No 177 – Feasibility Study into Decking of Millbrook Car Park & Implementation, the Joint EAB recommends:

(a) that the revenue bid for the feasibility study be approved, and
(b) that the outcome of the feasibility study, and proposals for construction be referred to the Borough EAB for further consideration, prior to the project being approved for transfer from the provisional to the approved capital programme.

(3) That, in respect of Bid No 211 – Parks & Countryside Roads, Paths & Car Parks, the Joint EAB recommends that, for aesthetic reasons, consideration be given to the use of an alternative to tarmac as a resurfacing material, for example, stone chippings.

10. Equality and Diversity Implications

10.1 There are no equality and diversity implications

11. Financial Implications

11.1 The financial implications are covered throughout the report, and in the Appendices. The Prudential Code, introduced in 2004, includes a number of recommendations regarding capital expenditure, particularly where we are considering prudential borrowing as a method of funding. The Prudential Code requires us to consider the affordability and prudence of capital decision making. In order to ensure long-term affordability, decisions have also to be prudent and sustainable in the long-term. We are therefore required to assess the impact of each project in terms of its effect on the Council's budget and council tax.

11.2 Interest earnings are an important source of revenue for the Council and the interest costs of our external debt is currently a big part of the Housing Revenue Account (HRA) budget, and projected to be a significant cost to the General Fund (GF) in future years.

11.3 It is important we manage our treasury management activity to maximise our investment income and reduce our debt interest, whilst maintaining our exposure to risk and maintaining appropriate liquidity to meet our needs.

11.4 The budget for investment income in 2018-19 is £1.625 million, based on an average investment portfolio of £115 million, at a weighted average rate of 1.63%. The budget for debt interest paid is £6.03 million, of which £5.13 million relates to the HRA. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

11.5 The MRP budget is £1.2 million in 2018-19.

12. Legal Implications

12.1 A variety of professional codes, statutes and guidance regulate the Council's capital and treasury management activities. These are:

- the Local Government Act 2003 ("the 2003 Act"), provides the powers to borrow and invest and prescribes controls and limits on these activities, and in particular within the Local Authority (Capital Finance and Accounting) (England) Regulations 2003.
- the 2003 Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken. The HRA debt cap is the only restriction that applied in 2017-18.
- Statutory Instrument (SI) 3146 2003 ("the SI") , as amended, develops the controls and powers within the 2003 Act
- the SI requires the Council to undertake borrowing activity with regard to the prudential code. The prudential code requires indicators to be set - some of which are absolute limits – for a minimum of three forthcoming years
- the SI also requires the Council to operate the overall treasury management function with regard to the CIPFA TM Code
- under the terms of the Act, the Government issued 'Investment Guidance' to structure and regulate the Council's investment activities. The emphasis of the guidance is on the security and liquidity of investments
- Localism Act 2011

12.2 The Council has a statutory requirement under the 2003 Act to adopt the CIPFA Prudential Code and produce prudential indicators. A requirement of the prudential code is the adoption of the CIPFA treasury management policy statement (revision agreed by Council on 9 February 2012), and further revision as a result of the 2018 revised Prudential and TM Codes to be agreed as part of this report.

13. Human Resource Implications

13.1 Where additional resources are required to deliver schemes identified within this report, officers have included this in the bid or have submitted a revenue bid.

14. Summary of Options

14.1 Officers have detailed the options within each new capital bid.

14.2 The DCLG Guidance and the CIPFA TM Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer, having consulted with the Lead Councillor for Finance and Asset Management, believes that the strategy represents an appropriate balance between risk and cost effectiveness. Some alternative strategies, with their financial and risk management implications are:

Alternative	Impact on Income and Expenditure	Impact on risk management
Invest in a narrower range of counterparties and / or shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults, but any such losses may be larger
Invest in a wider range of counterparties and / or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be larger
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium-term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leasing to a lower impact in the event of a default; however, long-term interest costs may be less certain

15. Conclusion

15.1 The information included in the report shows the position of the current approved capital programme. Bids for future years that are viewed as essential projects have been submitted by service leaders.

15.2 If all schemes proceed, within the timescales indicated, there will be an underlying need to borrow of £337 million by 31 March 2023.

15.3 The information included in this report, and the Appendices, shows the Council has adopted the principles of best practice and complied with relevant statute, guidance and accounting standards.

16. Background Papers

None

17. Appendices

Appendix 1:	Capital and investment strategy
Appendix 2:	Schedule of new GF capital bids for 2018-19 to 2022-23
Appendix 3:	Details of each proposal listed in Appendix 2
Appendix 4:	Schedule of approved GF capital programme
Appendix 5:	Schedule of provisional GF capital programme
Appendix 6:	Schedule of reserves funded capital schemes
Appendix 7:	Schedule of s106 funded capital schemes
Appendix 8:	Summary of resources and financial implications
Appendix 9:	Capital vision
Appendix 10:	Treasury Management policy statement
Appendix 11:	Treasury management practices
Appendix 12:	Money Market Code principles
Appendix 13:	Arlingclose Economic & Interest rate forecast November 2017
Appendix 14:	Credit rating equivalents and definitions
Appendix 15:	Schedule of comments from the JEABBTG
Appendix 16:	Glossary