ARDS AND NORTH DOWN BOROUGH COUNCIL

6 February 2018

Dear Sir/Madam

You are hereby invited to attend a Special Council Meeting which will be held in the **Council Chamber, Town Hall, The Castle, Bangor** on **Tuesday, 13 February 2018** commencing at **7.00pm.**

Tea, coffee and sandwiches will be available from 6.00pm.

Yours faithfully

Stephen Reid
Chief Executive
Ards and North Down Borough Council

A G E N D A

1. Prayer

2. Apologies

3. Declarations of Interest

ITEM 4 - ***IN CONFIDENCE***

4. Medium Term Financial Plan and Budgets (Report attached)

5. Robustness of Estimates and Adequacy of Reserves (Report attached)

6. Prudential Indicators and Treasury Management Strategy Statement (Report attached)

7. District Rates 2018/19 (Report attached)

Circulated for Information

IN CONFIDENCE

(i) Report of Special Corporate Services Committee dated 14 December 2017
(ii) Report of Special Corporate Services Committee dated 22 January 2018

MEMBERSHIP OF ARDS AND NORTH DOWN BOROUGH COUNCIL

Alderman Carson	Councillor Dunne
Alderman Fletcher	Councillor Douglas
Alderman Gibson	Councillor Edmund
Alderman Girvan	Councillor Ferguson
Alderman Graham	Councillor Gilmour
Alderman Henry	Councillor Kennedy
Alderman Irvine	(vacant)
Alderman Keery	Councillor Martin
Alderman McDowell	Councillor McAlpine
Alderman Smith	Councillor McClean
Councillor Adair	Councillor McIlveen
Councillor Allen	Councillor Menagh
Councillor Armstrong-Cotter	Councillor Muir
Councillor Barry	Councillor Robinson
Councillor Boyle	Councillor Smart
Councillor Brooks	Councillor T Smith
Councillor Cathcart	Councillor Thompson
Councillor Chambers	Councillor Walker
Councillor Cooper	Councillor Wilson
Councillor Cummings	Councillor Woods

ITEM 5

Ards and North Down Borough Council

Report Classification	Unclassified
Council/Committee	Special Council
Date of Meeting	13 February 2018
Responsible Director	Chief Executive
Responsible Head of Service	Head of Finance
Date of Report	08 February 2018
File Reference	FIN60
Legislation	Sections 4 and 6 Local Government Finance Act (NI) 2011
Section 75 Compliant	Yes ☒ No ☐ Not Applicable ☐
Subject	Robustness of Estimates and Adequacy of Reserves
Attachments	

Background

Section 4 of the Local Government Finance Act 2011 requires the Chief Financial Officer of a council to submit a report on the robustness of the estimates and for the Council to have regard to this report when considering the estimates.

In addition, Section 6 requires the Chief Financial Officer of a council to submit a report on the adequacy of reserves and for the Council to have regard to this when considering the estimates.

Robustness of Estimates

The aim of the Medium Term Financial Plan (MTFP) is to give the Council a realistic and sustainable plan that reflects the Council's priorities and the policy of reasonable Council Rate increases as reflected in the Corporate Plan.

The detailed estimates have been formulated in conjunction with Directors, Heads of Service and Service Unit Managers for the various services and underpin the MTFP, taking into account forecast outturn, current spending plans and likely future demand level and pressures for both revenue and capital expenditure.

The Chief Executive is satisfied that the Medium Term Financial Plan and Budgets Report for 2018/19 (presented at item 4 above), encompassing the capital and revenue budget estimates for 2018/19 (as set out in appendices 1-5), has been prepared in line with the CIPFA Treasury Management Code, Prudential Code and the Code of Practice on Local Authority Accounting and is robust.

The Chief Executive, however, is mindful that the 2019/20 and 2020/21 projected district rates increases are well above forecast inflation and that the Strategic Policy and Finance Group will commence an expenditure review shortly.

Adequacy of Reserves

The Local Government Finance Act (NI) 2011 requires the Chief Financial Officer of a council to submit a report to council on the adequacy of any proposed level of financial reserves for a financial year.

The Medium Term Financial Plan and Budgets Report for 2018/19 (presented at item 4 above) considers the adequacy of the Council's financial reserves for the 2017/18 and 2018/19 financial years (as set out in appendix 6). The level of forecast financial reserves was in line with the Council's aim of a realistic and sustainable plan that reflected the Council's priorities and the policy of reasonable Council Rate increases.

Cognisance has also been taken of the CIPFA Local Authority Accounting Panel Bulletin 99 (issued July 2014), which gives guidance on the level of reserves and the financing of Council expenditure.

The Chief Executive is content with the adequacy of the Council's forecast financial reserves for 2017/18 and 2018/19 as set out in Appendix 6 of the Medium Term Financial Plan and Budgets Report for 2018/19.

RECOMMENDATION

It is recommended that Council note the report.

ITEM 6

Ards and North Down Borough Council

Report Classification	Unclassified
Council/Committee	Special Council
Date of Meeting	13 February 2018
Responsible Director	Director of Finance and Performance
Responsible Head of Service	Head of Finance
Date of Report	08 February 2018
File Reference	FIN126
Legislation	Local Government Finance Act (NI) 2011
Section 75 Compliant	Yes ☒ No ☐ Not Applicable ☐
Subject	Prudential Indicators and Treasury Management Strategy Statement
Attachments	Appendix 1. Prudential Indicators Appendix 2. Treasury Management Strategy Statement

Prudential Indicators

The Local Government Finance Act (NI) 2011 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities (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 investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year. These are included in appendix 1.

Treasury Management Strategy Statement

The Council is also required to adopt the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the former Department of the Environment (DOE) issued revised Guidance on Local Council Investments in October 2011 that requires the Council to approve an investment strategy before the start of each financial year.

Appendix 2 fulfils the Council's legal obligation under the Local Government Finance Act (NI) 2011 to have regard to both the CIPFA Code and the DOE Guidance.

RECOMMENDATION

It is recommended that Council approve the Prudential Indicators and Treasury Management Strategy Statement for 2018/19 financial year as set out in Appendices 1 and 2.

Prudential Indicators and MRP Statement 2018/19

1. Prudential Indicators 2018/19

The Local Government Finance Act (Northern Ireland) 2011 (the Act) requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities (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 investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1.1 Estimates of Capital Expenditure

The Council's planned capital expenditure and financing can be summarised as follows. Further detail on individual capital schemes is provided in the Medium Term Financial Plan and Budgets Report for 2018/19, particularly appendices 1, 4 and 5.

Capital Expenditure and Financing by Directorate	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Community & Wellbeing	17.039	22.268	33.450	21.772
Environment	4.435	2.839	2.052	1.318
Regeneration, Development & Planning	0.786	2.953	7.245	11.525
Other	0.075	0.112	0.080	0.025
Total Expenditure	**22.335**	**28.172**	**42.827**	**34.640**

Capital Grants & Contributions	0.793	3.684	15.111	9.325
Capital Receipts	1.559	1.881	0.700	0.845
Reserves	0.210	0.260	0.270	0.280
Borrowing	19.773	22.347	26.746	24.190
Total Financing	**22.335**	**28.172**	**42.827**	**34.640**

1.2 Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement (CFR)	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Opening CFR	**59.240**	**74.977**	**94.688**	**117.737**
Fixed Asset Additions	22.335	28.172	42.827	34.640
Less Capital Grants	(0.793)	(3.684)	(15.111)	(9.325)
Less Capital Receipts applied	(1.559)	(1.881)	(0.700)	(0.845)
Less Reserves Financing	(0.210)	(0.260)	(0.270)	(0.280)
Less MRP	(4.036)	(2.636)	(3.697)	(5.937)
Total CFR	**74.977**	**94.688**	**117.737**	**135.990**

The CFR is forecast to rise by approx. £61m over the next three years, reflecting the borrowing requirements of the Council's capital investment programme during this period, as summarised in section 1.1 on previous page.

1.3 Gross Debt and the Capital Financing Requirement (CFR)

In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Total Debt	66.807	88.718	111.837	130.885
CFR	74.977	94.688	117.737	135.990
Under/(Over) Borrowed	**8.170**	**5.970**	**5.900**	**5.105**

The table above shows that the total debt is expected to remain below the CFR during the forecast period, hence ensuring that the Council is operating within the Prudential Code in this regard.

1.4 Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of the most likely (ie. prudent but not the worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Total Debt	66.807	88.718	111.837	130.885

1.5 Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Section 13(1) of the Act. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. This is set at a level which is £5m above the operational boundary or at the estimate of the Capital Financing Requirement, if higher.

Authorised Limit	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Total Debt	74.977	94.688	117.737	135.990

1.6 Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications (after the use of MRP holiday) of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	14.3	11.2	14.3	18.4

1.7 Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on the District Rates. The incremental impact (year on year) is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital budgets set out in Medium Term Financial Plan and Budgets Report for 2018/19, appendices 1, 4 and 5.

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**
Effect on Rates	3.72	2.07	4.08

Annual Minimum Revenue Provision Policy Statement 2018/19

Where the Council finances capital expenditure by borrowings, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The Act and the Local Government (Capital Finance and Accounting) Regulations (NI) 2011 require the Council to have regard to the Department of Environment's Guidance on Minimum Revenue Provision (the DOE Guidance), most recently issued in 2011.

The aim of the DOE Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with the period over which the capital expenditure provides benefits. It requires the Council to approve an Annual MRP Statement each year.

It is therefore recommended that Council approves the following MRP Statement for 2018/19:

- For capital expenditure incurred before 1st April 2012 and fully financed from borrowings, the revenue provision will be the sum of loan principal repayments due and amounts set aside for maturity loans on all borrowings taken out before 1st April 2012 ie. before the introduction of MRP;
- For capital expenditure incurred after 1st April 2012, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, in equal instalments, **starting in the year after the asset becomes operational**;
- MRP on expenditure not related to fixed assets, but which has been capitalised by regulation or direction (eg. public realm schemes), will be charged over the period in which the expenditure provides benefit;
- Additional and holiday provisions in the form of voluntary revenue provision (VRP) may also be applied.

Based on the Council's forecast of its Capital Financing Requirement, the forecasts for MRP are as follows:

MRP Estimates	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
MRP on Capital Exp before 1 April 2012	2.121	2.153	2.124	2.109
MRP on Capital Exp after 1 April 2012	1.203	1.675	2.760	4.462
MRP not related to Capital Exp	0.213	0.213	0.213	0.213
VRP	0.500	(1.404)	(1.400)	(0.847)
Total MRP	**4.036**	**2.637**	**3.697**	**5.937**

Appendix 2

Treasury Management Strategy Statement 2018/19

1. Introduction

The Council is required to and does adopt the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

In addition, the former Department of the Environment (DOE) issued revised Guidance on Local Council Investments in October 2011 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the Local Government Finance Act (Northern Ireland) 2011 to have regard to both the CIPFA Code and the DOE Guidance.

The Council, when borrowing and/or investing substantial sums of money is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

In accordance with the DOE Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

External Context

Economic background: The major external influence on the Council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and other geo-political factors.

The domestic economy has remained relatively robust since the outcome of the Brexit referendum but there are indications that uncertainty over the future is now weighing on economic growth, which is therefore forecast to remain sluggish throughout 2018/19. Consumer Price Inflation reached 3% in September 2017 and the Bank of England's Monetary Policy Committee, with its inflation-control mandate in mind, raised official interest rates to 0.5% in November 2017.

Credit outlook: Recent high profile bank failures in Europe have reinforced market concerns over the health of the European banking sector. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

Interest rate forecast: The Council's treasury adviser Arlingclose's most recent central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

For the purpose of setting the budget, it has been assumed that Council will adopt a short-term borrowing strategy for 2018/19 and strike a balance on interest costs between short-term borrowing at an approximate rate of 0.45% and average long term borrowing rates of 2.68%. This is discussed further at point 2 on borrowing strategy below.

Local Context

On 1st February 2018, the Council held £60.4m of borrowing and £3.0m of investments. Investments are predicted to fall during the remaining months of 2017/18 as capital receipts and other usable reserves are utilised to contribute to the financing of the capital investment programme. With the construction of the new leisure centre now well progressed, investment levels are forecast to reduce significantly throughout 2018/19 and the Council's borrowing requirement will increase.

Forecast changes in the capital financing and borrowing requirements are shown in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m	31.3.21 Estimate £m
Capital Financing Requirement	**59.2**	**75.0**	**94.7**	**117.7**	**136.0**
Less: External borrowing	(53.3)	(66.8)	(88.7)	(111.8)	(130.9)
Internal / (Over) borrowing	**5.9**	**8.2**	**6.0**	**5.9**	**5.1**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The Council has an increasing CFR (by approx. £61m) due to the significant capital investment programme over the forecast period from April 2018.

The strategy for 2018/19 will require a significant level of borrowings to be made with an increasing CFR due to the capital programme. It is forecast that the Council will be required to borrow up to £30m between now and the end of the following financial year.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 above shows that the Council expects to comply with this recommendation during 2018/19.

2. Borrowing Strategy

The Council is forecast to hold £66.8m of total borrowings by the end of the current financial year, 31st March 2018. £60.4m of this will be long-term borrowing and the balance short-term borrowing. This is an increase of £13.5m from 31st March 2017, reflecting the Council's need to finance the capital plan from external sources after the utilisation of capital receipts and other usable reserves. The balance sheet forecast in table 1 above shows that the Council expects borrowing levels to continue to increase in the medium term with borrowing levels at 31st March 2019 predicted to be around £88.7m, a further increase in year of £21.9m.

Objectives: The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

Strategy: With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council may be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

The Council has worked with its treasury advisers to develop an appropriate borrowing strategy for the current capital expenditure profile, which includes the adoption of a short-term borrowing strategy for 2018/19. This may result in some significant short-term savings for the Council but is predicated on long-term interest rate forecasts remaining low. Such short-term loans will be deemed as variable interest loans and hence this exposure will be kept within the limits as detailed in 4.1 below. The Council will continue to monitor interest rates and seek advice from Arlingclose throughout the year. If interest rate forecasts change significantly, this may result in borrowing long-term at fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Approved Sources: The approved sources of long-term and short-term borrowing are:

- Government Loans Fund (via the Department of Finance, DoF);
- any institution approved for investments including UK local authorities;
- any other bank or building society authorised to operate in the UK;
- UK public and private sector pension funds (except NILGOSC and NICS Pension Funds);
- capital market bond investors;
- special purpose companies created to enable local Council bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases;
- hire purchase;
- sale and leaseback.

The majority of the Council's long-term borrowing is from the Government Loans Fund but Officers will continue to investigate other sources of finance, such as local Council loans and bank loans, that may be available at more favourable rates. Discussions are underway with the Department of Finance to determine if Northern Ireland Councils can access the more favourable rates, already accessible by GB Councils, from the Public Works Loan Board (PWLB). It is anticipated that the majority of the short-term borrowing will come from other UK local authorities.

Municipal Bond Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the Government Loans Fund for two reasons:

- borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and

- there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

LOBOs: The Council holds £2m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it is viable and it has the opportunity to do so. The table below provides a summary of the LOBO loans currently held by Council:

Lender	Loan Amount	Interest Rate	Expiry Date
Dresdner Bank AG	£1,000,000	5.500%	Sept 2023
Lloyds Bank	£1,000,000	6.590%	Apr 2025

Short-term and Variable Rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The Department of Finance allows Councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Policy on Borrowing in advance of need: The Council will not borrow more than or in advance of its needs purely in order to speculate from the investment of the extra sums borrowed. However, the Council will consider borrowing in advance of its needs to hedge against future interest rate rises, although such a strategy will be discussed with the Council's advisors to ensure that the 'cost to carry' (the cost incurred when borrowing rates are higher than low risk investment rates) is carefully considered. Any decision to borrow in advance will also be within the forward approved Capital Financing

Requirement estimates. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

3. Investment Strategy

The Council currently holds invested funds of approx. £3m, representing income received in advance of expenditure plus balances and reserves held. This level is expected to fall to nil by the end of March 2018 and remain low during the 2018/19 year, as these funds are utilised to contribute to the financing of the capital investment programme.

Objectives: Both the CIPFA Code and the DOE Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Negative Interest Rates: If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: The Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council will aim to source more secure asset classes during 2018/19 if investment levels require it. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. Other than short-term investments of any monies borrowed in advance of need but within the authorised limits over the forecast period, it is expected that minimum levels of investments will be maintained.

Approved Counterparties: In accordance with guidance from the DOE and CIPFA and in order to minimise the risk to investments, the Council will only consider counterparties with a minimum acceptable credit quality for inclusion on the lending list. The Council will therefore adhere to the approved counterparty list provided by its treasury advisors, Arlingclose. Arlingclose consider credit ratings from the three main credit rating agencies

- Fitch, Moody's and Standard and Poor's together with other market factors, with the end product being a listing of the relative creditworthiness of counterparties. This information will be used by the Council to determine which counterparties to place investments with and the maximum duration for investments. Arlingclose will alert the Council to changes in counterparty creditworthiness and provide updated approved counterparty lists as these changes are notified. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Specified Investments: The Council deals only in specified investments ie. those which offer high security and high liquidity and satisfy the conditions set out below:

- investments denominated in pound sterling,
- investments due to be repaid within 12 months of arrangement,
- investments not defined as capital expenditure by legislation,
- invested with one of:
  - the UK Government,
  - a UK local Council, parish council or community council, or
  - a body or investment scheme of "high credit rating", and
- investments where the principal sum to be repaid at maturity is the same as the initial sum invested, other than investments in the UK Government.

The Council, consistent with advice provided by Arlingclose, defines "high credit rating" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments: Non-specified investments are those investments which do not, by definition, meet the requirements of a specified investment as set out above. They present a higher risk and therefore this Council does not intend to make any Non-Specified investments in 2018/19.

Investment Limits: The Council will invest surplus cash balances with each approved counterparty to a maximum of the greater of £3m or 30% of the overall investment, allocated in accordance with security, liquidity and yield.

4. Treasury Management Indicators

4.1 Debt Related Treasury Activity Limits

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- 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.

The Council is asked to approve the following treasury indicators and limits:

Interest rate exposures	2017/18	2018/19	2019/20	2020/21
Variable interest rate exposure - upper limit	30%	30%	30%	30%
Fixed interest rate exposure - upper limit	100%	100%	100%	100%

Maturity structure of fixed interest rate borrowing	2017/18		2018/19	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Under 12 months	0%	15%	0%	15%
12 months to 2 years	0%	15%	0%	15%
2 years to 5 years	0%	20%	0%	20%
5 years to 10 years	0%	30%	0%	30%
10 years and above	30%	90%	30%	90%

4.2 Investment Treasury Indicator: Principal sums invested for more than 364 days**.**

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. As it is not intended to enter into any non-specified investments, the Council is asked to approve the following limits:

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Principal sums invested > 364 days	Nil	Nil	Nil

5. Other Items

There are a number of additional items that the Council is obliged by CIPFA or the DOE to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives: The Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Investment Training: The Council recognises that investments, as well as wider treasury management issues require a high level of specialist knowledge. The Council will review staff training needs in respect of Treasury Management skills as part is its Pride in Performance Initiative. In addition, it is recommended that training should be provided for elected members to enable them to provide effective scrutiny of the strategy and to have the knowledge to make informed decisions.

Investment Advisers: Through a collaborative procurement process with the lead Council being Armagh City, Banbridge and Craigavon Borough Council, the Council has appointed Arlingclose Ltd as treasury mangement advisers. Whilst Arlingclose provides the Council with specific advice on investments, debt and capital finance issues, 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.

ITEM 7

Ards and North Down Borough Council

Report Classification	Unclassified
Council/Committee	Special Council
Date of Meeting	13 February 2018
Responsible Director	Chief Executive
Responsible Head of Service	Head of Finance
Date of Report	08 February 2018
File Reference	FIN60
Legislation	Art 8 Rates (NI) Order 1977
Section 75 Compliant	Yes ☒ No ☐ Not Applicable ☐
Subject	District Rates 2018/19
Attachments	Appendix 1

BACKGROUND

This report is to present to Members the proposed district rates for the 2018/19 financial year.

The Special Corporate Services Committee in January has recommended an increase in the district rates of **2.96%** on the current years' rates and Appendix 1 sets out the formal calculation.

RECOMMENDATION

It is, therefore, recommended that Council sets for the 2018/19 financial year a non-domestic district rate of 22.3273p in the pound and a domestic district rate of 0.3170p in the pound.

Appendix 1

District Rates Calculation

Total Amount to be Raised (c/f)	**48,847,900**
Reduced by Rates Support Grant	**0**
+/- Balance Applied	**0**
Amount to be Raised *(via District Rates, De-rating and Transferred Functions Grants)*	**48,847,900**
Total Penny Product *(from table below)*	**2,187,810**
Non-Domestic District Rate	**22.3273**
Council Specific Conversion Factor	**0.014198**
Domestic District Rate	**0.3170**
Penny Product Information	
Estimated Penny Product (Rateable) - *(To be based on figure provided by LPS, DoF, which is total of non-domestic and domestic penny products, with rating policy reductions applied; as this is for rate setting the council specific conversion factor will have been applied to domestic capital values)*	**2,110,070**
Estimated Penny Product (De-rated) *(To be based on figure provided by DoF)*	**58,880**
Derived Penny Product (Transferred Functions Grant) (Fixed amount)	**18,860**
Total Penny Product	**2,187,810**
Grants payable by DfC	
Estimated De-rating Grant (DRG) *(De-rating Grant payable by DfC during year will be Estimated PP (De-rated) x Non-domestic District Rate)*	**1,314,631**
Transferred Functions Grant (TFG) *(includes NI Local Government Commissioner for Standards Costs)* *(Derived Penny Product (TFG) x Non-domestic District Rate)*	**421,093**
Rates Support Grant	**0**
Amount payable by DoF	
Estimated Amount to be Raised via District Rates (Rateable)	**47,112,176**