



<b>Report of:</b>	<b>Meeting</b>	<b>Date</b>
Councillor Alan Vincent, Resources Portfolio Holder and Clare James, Head of Finance	Cabinet	27 March 2019

<p style="text-align: center;"><b>Treasury Management Policy Statement and Practices, Treasury Management and Annual Investment Strategy, Minimum Revenue Provision Policy Statement and Capital Strategy 2019/20</b></p>
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## **1. Purpose of report**

- 1.1** To set out the policies and objectives of the Council in respect of Treasury Management activities, to explain how the Council seeks to achieve the objectives and manage and control the activities for 2019/20 which includes the new requirement for a Capital Strategy.

## **2. Outcomes**

- 2.1** A Policy Statement, Statement of Treasury Management Practices, Treasury Management and Annual Investment Strategy, a Minimum Revenue Provision (MRP) Policy Statement and a Capital Strategy.

## **3. Recommendations**

- 3.1** To recommend to Council that the Treasury Management Policy Statement 2019/20 be approved and clauses 4 to 7 (Appendix 1) be formally adopted.
- 3.2** To approve the revised Treasury Management Practices 2019/20 (Appendix 2).
- 3.3** To recommend to Council that the Treasury Management and Annual Investment Strategy 2019/20 (Appendix 3) be approved including the formal adoption of the statement at 4.8 relating to non-treasury investments (Section 8 Treasury Management Code 2017).
- 3.4** To recommend to Council that the MRP Policy Statement 2019/20 (Appendix 4) be approved.
- 3.5** To recommend to Council that the Capital Strategy 2019/20 (Appendix 5) be approved.

## **4. Background**

- 4.1** The report has been prepared in accordance with the Revised CIPFA Treasury Management Code 2017, with the 2011 version previously adopted by the Council.
- 4.2** As part of the revised Prudential Code 2017, CIPFA introduced a new requirement for councils to publish a Capital Strategy (see Appendix 5). Councils are obliged to have their Capital Strategy in place for 2019/20 to comply with the new regulations. Guidance on the form and content of the Capital Strategy has been limited and as such the current strategy document represents the first steps towards full compliance and as further instruction is made available it is expected that the strategy will evolve. This approach is in line with CIPFA's expectations and the understanding that all councils will be working towards developing their own strategies over time to meet local needs.
- 4.3** The new Capital Strategy is designed 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 (VFM), prudence, sustainability and affordability. The strategy is intended to set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and the achievement of priority outcomes. Long-term is not defined and beyond the current Medium Term Financial Planning period, there is little detail or certainty within the current strategy, particularly taking into account the current funding reform context. As greater clarity is achieved nationally, it is expected that further iterations of the strategy will become more detailed and longer-term.
- 4.4** Owing to the interrelatedness of the Treasury Management framework and the Capital Strategy, there is a good deal of overlap between the two documents and potential for duplication. Efforts have been made to streamline the Capital Strategy and cross-reference to existing Treasury Management documents where possible in order to reduce repetition.
- 4.5** In November 2018 Overview and Scrutiny Committee received their annual Treasury Management Training from the Head of Finance and the introduction of the new requirement for a Capital Strategy was included.

## **5. Key issues and proposals**

- 5.1** The Local Government Act 2003 requires the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years. The 2019/20 Prudential Indicators were considered by Cabinet at their meeting on 13 February 2019 and approved at the Council meeting on 7 March 2019.

- 5.2** The key objective of the Prudential Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. In exceptional cases, its purpose may be to demonstrate that there is a danger of not ensuring this, so that the authority concerned can take remedial action.
- 5.3** In order to demonstrate compliance with the CIPFA Code of Practice for Treasury Management, the Council must approve a Policy Statement, Treasury Management Practices, a Treasury Management and Investment Strategy, an MRP Policy Statement and a Capital Strategy setting out how the Council will seek to achieve its Treasury Management policies, together with details of how these activities are managed and controlled.
- 5.4** It is also a requirement of the Code of Practice that the full Council agrees the Treasury Management and Annual Investment Strategy, the MRP Policy Statement and the Capital Strategy for the forthcoming financial year. The 2019/20 Strategies and MRP Policy Statement are attached at Appendix 3, 4 and 5.

<b>Financial and legal implications</b>	
Finance	There are no direct financial implications arising from the adoption of the Capital Strategy, Treasury Management Policy Statement and Treasury Management Practices. The Prudential Code allows capital investment to proceed within prudent limits where the Council can fund it from its own resources and external revenue streams.
Legal	This report ensures that the legal requirements contained in the Codes of Practice and Local Government Act 2003 are fulfilled.

**Other risks/implications: checklist**

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

<b>risks/implications</b>	<b>✓ / x</b>
community safety	<b>x</b>
equality and diversity	<b>x</b>
sustainability	<b>x</b>
health and safety	<b>x</b>

<b>risks/implications</b>	<b>✓ / x</b>
asset management	<b>✓</b>
climate change	<b>x</b>
ICT	<b>x</b>
Data protection	<b>x</b>

## Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

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<b>List of background papers:</b>		
name of document	date	where available for inspection
None		

### List of appendices

Appendix 1 - Treasury Management Policy Statement 2019/20

Appendix 2 - Treasury Management Practices 2019/20

Appendix 3 - Treasury Management Strategy and Annual Investment Strategy 2019/20

Appendix 4 – Minimum Revenue Provision Policy Statement 2019/20

Appendix 5 – Capital Strategy 2019/20

dem/cab/cr/19/2703cj3

**TREASURY MANAGEMENT POLICY STATEMENT 2019/20**

Wyre Council defines its treasury management activities as follows: -

1. The management of the authority'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.
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

**Clauses to be formally adopted**

4. The Council will create and maintain, as the cornerstones for effective treasury management:
  - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities, and;
  - 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 those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

5. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
6. The Council delegates responsibility for the implementation and regular monitoring of its treasury management practices to Cabinet, and for the execution and administration of treasury management decisions to the Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
7. The Council nominates the Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

# **TREASURY MANAGEMENT PRACTICES**

**2019/20**

## TREASURY MANAGEMENT PRACTICES

This section contains the schedules, which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation.

	<b>Paragraph</b>
<b>TMP 1 Treasury risk management</b>	<b>1.1 - 1.9</b>
<b>TMP 2 Performance measurement</b>	<b>2.1 - 2.3</b>
<b>TMP 3 Decision-making and analysis</b>	<b>3.1</b>
<b>TMP 4 Approved instruments, methods and techniques</b>	<b>4.1 - 4.6</b>
<b>TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements</b>	<b>5.1 - 5.13</b>
<b>TMP 6 Reporting requirements and management information arrangements</b>	<b>6.1 - 6.9</b>
<b>TMP 7 Budgeting, accounting and audit arrangements</b>	<b>7.1 - 7.4</b>
<b>TMP 8 Cash and cash flow management</b>	<b>8.1 - 8.6</b>
<b>TMP 9 Money laundering</b>	<b>9.1 - 9.6</b>
<b>TMP 10 Training and qualifications</b>	<b>10.1 - 10.7</b>
<b>TMP 11 Use of external service providers</b>	<b>11.1 - 11.2</b>
<b>TMP 12 Corporate governance</b>	<b>12.1</b>

## **TMP1 TREASURY RISK MANAGEMENT**

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

### **1.1 Credit and Counterparty Risk Management**

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

The council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

#### **1.1.1 Policy on the use of credit risk analysis techniques**

The council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the council to determine the suggested duration for investments. The council will therefore use counterparties within the following durational bands: -

- Yellow 5 years (only Local Authorities)
- Dark Pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25

- Light Pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
  - Purple 2 years
  - Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
  - Orange 1 year
  - Red 6 months
  - Green 100 days
  - No colour Not to be used
1. A weekly colour coded Credit Listing is provided by email from our Treasury Management consultants and this is supplemented with emails regarding all changes in credit ratings as and when they occur. These documents are saved within the Cash flow folder.
  2. These documents will be reviewed by treasury management staff in line with the policy on criteria for selection of counterparties for use by the responsible officer making investments on a daily basis.
  3. Ratings will not be the sole determinant of the quality of an institution. In addition to the credit ratings the assessment will also take account of information that reflects the opinion of the markets. Other information sources will include: -
    - The financial press
    - Share price
    - Information pertaining to the banking sector
    - Sole reliance will not be placed on the use of this external source. The council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.
  4. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
    - Maximum amount to be placed with any one institution - £6m
    - Group limits where a number of institutions are under one ownership – maximum of £6m
    - Country limits – excluding UK, a minimum sovereign rating of AA- from Fitch (or equivalent) is required.
  5. Investments will not be made with counterparties that do not have a credit rating in their own right, except for Local Authorities. As part of our Treasury Management Consultants credit methodology UK Local Authorities are assigned a colour band 'yellow' (5 years).
  6. Maximum maturity periods and amounts to be placed in different types of institutions are in Schedule 1 as follows:-

## TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

The Guidance and CIPFA TM Code distinguishes between specified and non-specified investments, as follows:-

- **Specified Investments:** All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria (organisations included with the following colour codings on Link's weekly Credit List also available online) where applicable.
- **Non-Specified Investments:** These are investments which do not meet the Specified Investment criteria.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Organisation	Minimum credit criteria / colour band	Specified or Non-Specified Investment	Maximum Amount per institution	Maximum maturity Period
Term deposits with UK Clearing Banks and UK Building Societies	Purple Blue Orange Red Green	Non-Spec Specified Specified Specified Specified	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days
Term Deposits with Other Banks	Orange Red Green	Specified Specified Specified	£6m £6m £6m	Up to 1 year Up to 6 months Up to 100 days
CD's with UK Clearing Banks and UK Building Societies	Purple Blue Orange Red Green	Non-Spec Specified Specified Specified Specified	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days
UK Local Authorities	Yellow	Non-Spec Specified	£6m £6m	Up to 5 years Up to 1 year
Ultra-Short Dated Bond Funds with credit score of 1.25	Dark pink / AAA	Specified	£6m	Liquid

<b>Organisation</b>	<b>Minimum credit criteria / colour band</b>	<b>Specified or Non-Specified Investment</b>	<b>Maximum Amount per institution</b>	<b>Maximum maturity Period</b>
Ultra-Short Dated Bond Funds with credit score of 1.5	Light pink / AAA	Specified	£6m	Liquid
Money Market Funds - CNAV, LVNAV or VNAV	AAA	Specified	£6m	Liquid

\* Part Nationalised banks (Per 1.1.1)

## **1.2 Liquidity Risk Management**

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will therefore be compromised.

The council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### **1.2.1. Amounts of approved minimum cash balances and short-term investments**

The Treasury Management section shall seek to minimise the balance held in the council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

### **1.2.2. Details of:**

#### **a) Standby facilities**

The council's bank (Natwest) has a facility whereby at the end of each day any surplus funds are transferred to an Investment Account/Call Account. This came into operation in February 2018.

#### **b) Bank overdraft arrangements**

The council has reviewed the cost effectiveness of operating an agreed overdraft and has decided not to have such an arrangement in place. If the group bank account does become overdrawn there will be a charge of 4% over the base rate.

c) Short-term borrowing facilities

The council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £13.452m.

d) Insurance/guarantee facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

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

There is a risk that fluctuations in the levels of interest rates would create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

#### **1.3.1. Details of approved interest rate exposure limits**

The Treasury Indicators for 2019/20 include a figure of £20 million for External Debt – Authorised Limit.

#### **1.3.2 Trigger points and other guidelines for managing changes to interest rate levels**

The Treasury Indicators for 2019/20 include a figure of £13.459 million for External Debt – Operational Boundary.

#### **1.3.3 Limits for fixed and variable interest rate exposures**

The Prudential Code, revised in 2017, does not require limits to be set for variable and fixed interest rate exposures. However the council will ensure interest rate exposure is considered when making new investment/borrowing decisions.

#### **1.3.4 Policies concerning the use of instruments for interest rate management**

a) Forward dealing:

Consideration will be given to dealing from forward periods dependent upon market conditions. Forward dealing requires the approval of the Head of Finance.

- b) Callable deposits:  
The council will not use callable deposits as part of its Annual Investment Strategy.
- c) LOBO's (borrowing under lender's option/borrowers option):  
Use of LOBO's are not considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days requires the approval of the Head of Finance.

#### **1.4 Exchange Rate Risk Management**

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

The council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

##### **1.4.1 Approved criteria for managing changes in exchange rate levels**

- a) As a result of the nature of the council's business, the council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The council will eliminate all foreign exchange exposures as soon as they are identified.
- b) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered after taking professional advice. Unexpected receipt of foreign currency income will be converted to sterling at the day's rate on which the currency was received. Where the council has a contractual obligation to make a payment in the same currency at a date in the future, then the currency may be held on deposit to meet this expenditure commitment.

#### **1.5 Inflation Risk Management**

The council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole council's inflation exposures.

#### **1.6 Refinancing Risk Management**

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for such refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as

favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

#### **1.6.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices**

The council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk;
- b) to reduce the average interest rate;
- c) to amend the maturity profile and/or the balance of volatility of the debt portfolio.

All rescheduling will be reported to Cabinet as soon as possible after the debt rescheduling exercise.

#### **1.6.2 Projected Capital Investment Requirements**

The responsible officer will prepare a five year plan for capital expenditure for the council. The capital plan will be used to prepare a five year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

#### **1.6.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing**

In considering the affordability of its capital plans, the council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this four year period. (Section 7 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

#### **1.6.4 Set Aside Capital Receipts**

As the final mortgage was redeemed during 2013/14, the council no longer has any requirement to set aside a proportion of its receipts. All of the

authority's capital receipts may now be used for either the redemption of debt or financing new capital expenditure as an alternative to new borrowing.

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

The risk that the council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

The council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 Treasury Risk Management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

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

#### **References to Relevant Statutes and Regulations**

The treasury management activities of the council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the council. These are as follows:

##### **Statutes**

Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.

Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.

Local Government Act 2003

S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03

S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03

S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04

S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04

S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004

S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006

S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007

Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP

S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008

S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009

S.I. 2009 no. 2272 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2009

S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009

S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010

Localism Act 2011

S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012

S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012

S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012

S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012

S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013

S.I. 2015 no. 234 Accounts and Audit Regulations 2015

### ***Guidance and codes of practice***

CLG Revised Guidance on Investments 2018

CLG Guidance on minimum revenue provision – Feb 2012 updated 2018

CIPFA Treasury Management Code of Practice and Guidance Notes 2017

CIPFA Prudential Code for Capital Finance in Local Authorities 2017

CIPFA Treasury Management in the Public Services Guidance Notes 2018

CIPFA Statement 17.10.18 on borrowing in advance of need and investments in commercial properties

CIPFA Bulletin 02 Treasury and Capital Management Update October 2018

CIPFA Local Authority Capital Accounting - a reference manual for practitioners 2016 Edition

CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996

CIPFA Standard of Professional Practice on Continuous professional Development Revised 2013

CIPFA Statement of Professional Practice on Ethics 2018

The Good Governance Standard for Public Services 2004

LAAP Bulletins

IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice

PWLB circulars on Lending Policy

The Non-Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Financial Conduct Authority's Code of Market Conduct

The Council's Standing Orders relating to Contracts

### **1.7.2 Procedures for Evidencing the Council's Powers/Authorities to Counterparties**

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

In addition, it will make available on request the following: -

- i. the responsibilities and dealing arrangements in relation to treasury management activities which are contained in TMP5
- ii. the document that states which officers are the authorised signatories.

#### **Required Information on Counterparties**

Lending shall only be made to counterparties that comply with the council's Credit Worthiness Policy that is based upon the Link colour coded creditworthiness list and consideration of other market information including Country Sovereign ratings etc.

### **1.7.3 Statement on the Council's Political Risks and Management of Same**

The Head of Finance shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage political risks such as change of majority group, leadership in the Council, change of Government etc.

### **1.7.4 Monitoring Officer**

The monitoring officer is the Head of Business Support; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

### **1.7.5. Chief Financial Officer**

The Chief Financial Officer is the Head of Finance; the duty of this officer is to ensure that the financial affairs of the council are conducted in a prudent manner and to make a report to the Council if they have concerns as to the financial prudence of its actions or its expected financial position.

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

There is a risk that an organisation could fail to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fail to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. This is commonly referred to as operational risk.

The council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ

suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

### **1.8.1. Details of Systems and Procedures to be followed, including Internet Services**

#### **Authority**

- Loan and Investment procedures are defined in the Council's Financial Regulations and Financial Procedure Rules.
- The Scheme of Delegation to Officers sets out the authority given to the Head of Finance in relation to arranging the borrowing and investments of the authority. All loans and investments are negotiated by the Head of Finance or nominated Officers.

#### **Procedures**

- A password and PIN number is required to access the Bankline system, which is used to make electronic payments.
- A username and password is required to access the SunGard Money Market Portal.
- Payments can only be authorised by agreed officers having previously been notified to the current provider of our banking services and Money Market Portal.

#### **Investment and borrowing transactions**

- A detailed spreadsheet of loans and investments is maintained within the Financial Services team. This is regularly reconciled to the ledger.
- The loans spreadsheet is updated to record all lending and borrowing. This includes the date of the transaction, brokerage fees etc.
- Adequate and effective cash flow forecasting records are maintained on spreadsheets to support the decision to lend or borrow.
- Money borrowed or lent that is due to be repaid is recorded in the cash flow forecast.
- Written confirmation of deals is faxed/emailed promptly by the lending or borrowing institution.

- A broker note showing details of the loan arranged confirms all transactions placed through the brokers.
- The SunGard Portal, with emailed acknowledgements, confirms all money market transactions.
- Email acknowledgements confirm all fixed term deposits with banking institutions.

### **Regularity and security**

- All lending is only made to institutions on the Approved List.
- All loans raised and repayments made go directly to and from the institution's bank account.
- Authorisation limits are set for every institution.
- Brokers have a list of named officials authorised to perform loan transactions.
- There is adequate insurance cover for employees involved in loan management and accounting.
- The control totals for borrowing and lending are regularly reconciled with the ledger balance sheet codes by the Financial Services team.
- There is a separation of duties in the Section between the recall of MMF's and its checking and authorisation.
- The council's bank holds a list of council officials who are authorised signatories.
- No member of the Treasury Management team, responsible for borrowing and lending, is an authorised signatory.

### **Checks**

- The bank reconciliation is carried out regularly from the bank statement to the financial ledger.
- Balance Sheet ledger codes are reconciled monthly. Working papers are retained for audit inspection.
- A debt charge/investment income listing is produced every time the debt charge/investment income is recalculated for budget monitoring purposes. A debt charge/investment listing is also produced at the financial year-end and this document is retained for audit inspection.
- The method of accounting for unrealised losses or gains on the valuation of assets within the funds will comply with Accounting Codes of Practice by reflecting the market value of the fund in the balance sheet. This will be agreed with council's external auditors.
- We have complied with the requirements of the Code of Practice on Local Authority Accounting and will account for the funds at Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement.

### **Calculations**

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Financial Services team.

### **1.8.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.**

Treasury Management related files (word and excel) are stored on the council's 'J' Drive with arrangements for contingency/back-up. Back up facilities can be accessed off site.

In the event of a 'Bankline System' failure, manual procedures would be followed with information being provided from the council's Bankers by telephone.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

### **1.8.3 Insurance Cover Details**

The council has 'Fidelity' insurance cover with Zurich Municipal (ZM). This covers the loss of cash by fraud or dishonesty of employees. This cover is limited per transaction as follows:

- 13 designated officers (Head of Finance, Head of Contact Centre, Head of Governance, Head of Business Support, Legal Services Manager, Deputy Head of Finance, Senior Accountant, Senior Account Manager x 3, Financial Systems and Payments Officer and Financial Service Officer x 2 are indemnified for £3m.
- All other employees are indemnified for £250,000.

#### **Officials Indemnity Insurance**

The council also has an 'Officials Indemnity' insurance policy with ZM which covers the loss to the council from any actions and advice of its officers, excluding professional services provided under a written contract or agreement, that are negligent and without due care. This cover is currently limited to £1m for any one event with nil excess.

#### **Public Liability Insurance**

The council also has 'Public Liability' cover with ZM which covers the loss to the council from any actions or omissions which could give rise to a claim of negligence as a result of third party financial loss. This cover is currently limited to £10m for any one event with a £10,000 excess.

### **1.9 Price Market Risk Management**

There is a risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## **TMP 2 PERFORMANCE MEASUREMENT**

### **2.1 Evaluation and Review of Treasury Management Decisions**

The council has a number of approaches to evaluating treasury management decisions:

- a) reviews with our treasury management consultants;
- b) annual review after the end of the year as reported to Council;
- c) half yearly monitoring reports to Council.

#### **2.1.1 Reviews with our treasury management consultants**

The treasury management team holds reviews with the Treasury Management consultants every 12 months to review the performance of the investment and debt portfolios.

#### **2.1.2 Annual Review after the end of the financial year**

An Annual Report on Treasury Management Activity is submitted to Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios. This report contains the following: -

- a) total debt and investments at the beginning and close of the financial year and average interest rates
- b) borrowing strategy for the year compared to actual strategy
- c) investment strategy for the year compared to actual strategy
- d) explanations for variance between original strategies and actual
- e) debt rescheduling done in the year
- f) actual borrowing and investment rates achieved through the year
- g) comparison of return on investments to the investment benchmark
- h) compliance with Prudential and Treasury Indicators

#### **2.1.3 Half Yearly Monitoring Reports**

A half yearly Report on Treasury Management is submitted to Council in November/December which reviews the performance of the debt and investment portfolios. This report contains the same information as the annual report but only includes information for the first 6 months of the year.

### **2.2 Benchmarks and Calculation Methodology:**

#### **2.2.1 Debt management**

Average rate on all external debt.

Average rate on external debt borrowed in previous financial year.

#### **2.2.2 Investment**

The performance of in house investment earnings will be measured against the 7 day LIBID rate (London Interbank Bid Rate).

## **2.3 Policy Concerning Methods for Testing Value For Money in Treasury Management**

### **2.3.1 Frequency and processes for tendering**

Following the loss of the council's debt free status during 2007/08, Link Asset Services (formerly Capita Asset Services) were engaged as the council's treasury advisor. The current contract is for three years until March 2020. The service was most recently benchmarked in March 2017 and further benchmarking exercises will be conducted every three years to ensure value for money is maintained.

### **2.3.2 Banking services**

Whilst the council has been with Natwest for over 25 years, banking services have traditionally been re-tendered or renegotiated every 3 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing.

In early 2016 a procurement exercise for banking services was conducted on a Government Framework which resulted in Natwest being the preferred supplier. The banking service contract commenced on 1 April 2016 for 3 years with an option to extend for a further 1 year plus 1 year realising significant savings over the life of the contract. The contract is being extended for the year commencing 1 April 2019 and will be review again in 2020.

### **2.3.3 Money-broking services**

The council will use money-broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both price and quality of service.

### **2.3.4 Consultants'/advisers' services**

The council's current policy is to appoint professional treasury management consultants (Link Asset Services) and a benchmarking exercise is conducted prior to the end of the contract to ensure value for money. Separate leasing advisory consultants will be appointed where necessary.

### **2.3.5 Policy on External Managers (other than relating to Superannuation Funds)**

The council's policy is not to appoint external investment fund managers.

## **TMP 3 DECISION-MAKING AND ANALYSIS**

### **3.1 Funding, Borrowing, Lending, and new Instruments and Techniques:**

#### **3.1.1 Records to be kept**

All loan transactions are recorded on a spreadsheet within the Cash flow folder on the J drive.

The following records will be used as relative to each loan or investment:

- Daily cash projections
- Money market rates obtained via Sunguard website, or by telephone from institutions or brokers
- Sunguard emails detailing each net trade and authorisation
- Electronic copies of Natwest CHAPS payment transactions
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing/lending institutions where deals are done directly
- Temporary Lending Authorisation forms
- PWLB loan confirmations
- PWLB debt portfolio schedules

### **3.1.2 Processes to be pursued**

Cash flow analysis

Ledger reconciliations

Review of long-term borrowing requirement as applicable

Debt and investment maturity analysis

Monitoring of projected loan charges, interest and expenses costs

Review of opportunities for debt rescheduling, as applicable

Collation of a monthly borrowing and lending return

### **3.1.3 Issues to be addressed**

#### ***3.1.3.1. In respect of every treasury management decision made the council will:***

- a) Above all be clear about the nature and extent of the risks to which the council may become exposed.
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- c) Be content that the documentation is adequate both to deliver the council's objectives and protect the council's interests, and to deliver good housekeeping.
- d) Ensure that relevant due diligence has taken place.
- e) Ensure that third parties are judged satisfactory in the context of the council's creditworthiness policies, and that limits have not been exceeded.
- f) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

#### ***3.1.3.2 In respect of borrowing and other funding decisions, the council will:***

- a) Consider the ongoing revenue liabilities created and the implications for the organisation's future plans and budgets.

- b) Evaluate the economic and market factors that might influence the manner and timing of any decision to finance capital schemes.
- c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and external grant providers.
- d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

**3.1.3.3 In respect of investment decisions, the council will:**

- a) Consider the risks to capital and returns and the implications for the organisation's future plans and budgets.
- b) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- c) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

**TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

**4.1 Approved Activities of the Treasury Management Operation**

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities; and
- leasing.

**4.2 Approved Instruments for Investments**

The council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Annual Investment Strategy and within the limits and parameters defined in TMP1 Treasury risk management.

**4.3 Approved Techniques**

Forward dealing up to 364 days.

**4.4 Approved Methods and Sources of Raising Capital Finance**

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the council has a number of approved methods and sources of raising capital finance. These are:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
Market (long-term) (Not currently)	●	●
Market (temporary)	●	●
Internal (capital receipts and revenue balances)	●	●
Leasing (finance leases) (Not currently)	●	●
<b>Other Methods of Financing</b>		
Government and EU Capital Grants		
Lottery monies		
Donations and contributions		
Operating leases (Not currently)		

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Head of Finance has delegated powers in accordance with Financial Regulations and Financial Procedure Rules, the Scheme of Delegation to Officers and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

#### **4.5 Investment Limits**

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

#### **4.6 Borrowing Limits**

See the Treasury Management and Annual Investment Strategy and Prudential and Treasury Indicators.

#### **4.6 MIFID II (Markets In Financial Instruments Directive)**

The council has reviewed its classification with financial institutions under MIFID II and is registered as a professional client with the following organisations:

- Sunguard FIS (Investment Portal)
- RP Martins (Brokers)
- Tradition (Brokers)
- Deutsche Asset Management (MMF)
- Federated (MMF)
- Insight Investment (MMF)
- Aberdeen Standard Investments (MMF)

The following organisations have informed that they do not require the council to be registered as a professional client to invest in their Money Market Funds.

- LGIM (MMF)
- Blackrock (MMF)
- Goldman Sachs (MMF)

The council has remained as a retail client with its Treasury Management Consultants Link Asset Services.

The council can chose to opt up from retail to professional status at any point assuming it meets certain criteria and with the agreement of the relevant financial institution.

#### **4.7 Money Market Fund Reform**

New Money Market Fund European regulations came into force on 21 July 2018 and existing funds had to be compliant by 21 January 2019. There are now three structural options of MMF's. These are CNAV,. (Public Debt Constant Net Asset Value), LVNAV (Low Volatility Net Asset Value) and VNAV (Variable Net Asset Value). The council can invest in CNAV, LVNAV and VNAV MMF's as included in TMP1 Schedule 1.

### **TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

#### **5.1 Allocation of responsibilities**

##### **(i) Full Council**

- approval of annual strategy
- approval of MRP Policy Statement
- budget consideration and approval
- receive and review the mid-year and annual monitoring reports

##### **(ii) Cabinet**

- receiving and reviewing reports on treasury management policies, practices and activities
- budget consideration and approval
- approval of the division of responsibilities as reflected in TMP5
- approving the selection of external service providers and agreeing terms of appointment

##### **(iii) Overview and Scrutiny**

- effective scrutiny of the treasury management strategy and policies.

#### **5.2 Principles and Practices Concerning Segregation of Duties**

The Head of Finance authorises all new long-term borrowing.

Transactions relating to pre-existing agreements are delegated to nominated officers within the Financial Services team.

Short-term borrowing and investment is authorised by the Head of Finance, Deputy Head of Finance, Head of Business Support, Legal Services Manager, Head of Contact Centre or Head of Governance.

The following duties are undertaken by separate officers:

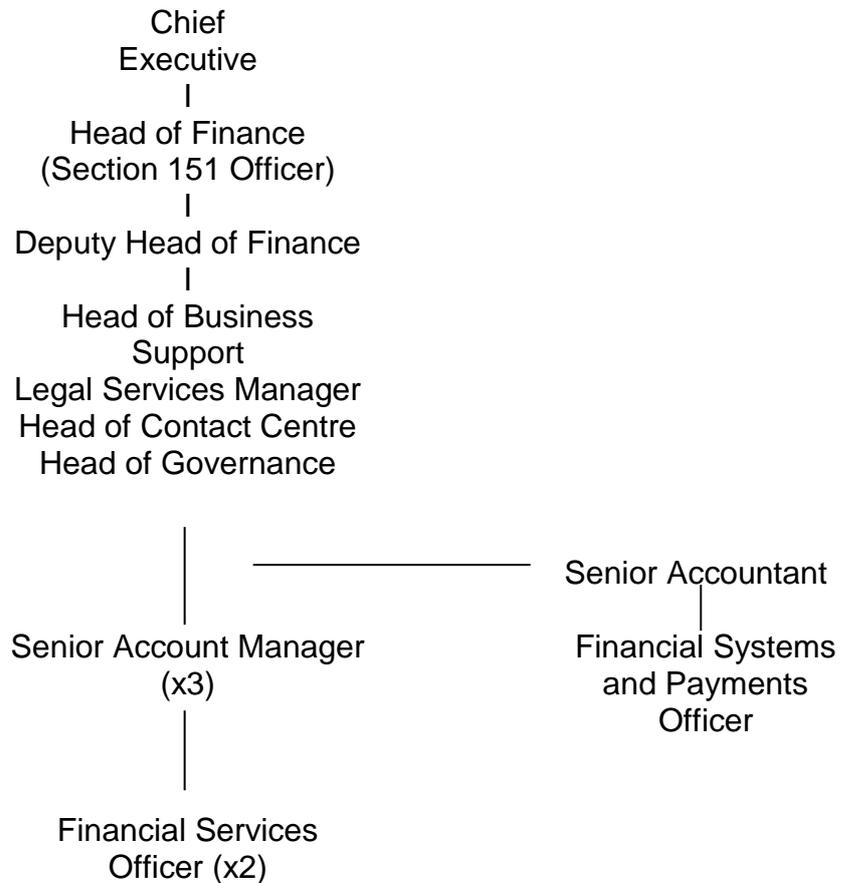
- Dealing
- negotiating deals
  - receipt and checking of broker's confirmation against loans spreadsheet

- reconciliation of control accounts
- bank reconciliation
  
- Accounting Entry - processing the expenditure or income i.e., posting the entries into the accounting system
  
- Authorising - approval and payment
- approval of deals

The table overleaf identifies who performs particular roles within the team.

<b>Function</b>	Chief Executive	Section 151 Officer (Head of Finance)	Deputy Head of Finance	Head of Contact Centre/ Head of Governance/ Head of Business Support / Legal Services Manager	Financial Systems and Payments Officer	Senior Accountant	Senior Account Manager (x3)	Financial Services Officer (x2)
Adherence to TM Practices, Policies and Strategies	•	•	•					
Ensure regular reports submitted to Cabinet on Treasury Policy, activity and performance	•	•	•					
Revisions of treasury management policy statement, policies and practices		•	•					
Approval of external service providers and agreeing terms of appointment		•	•					
Establishing new banking facilities (e.g. Base Tracker Accounts)		•	•					
Authorisation of Long term borrowing and investing		•	•					
Amending bank mandate		•	•					
Authorisation of short term borrowing and investing		•	•	•				
Bankline - Authorising payments		•	•	•				
Bankline - Creating payments							•	•
SunGard – Authorising transfers		•	•	•				
SunGard – Creating transfers							•	•
Day to day dealing							•	•
Cash flow projections							•	•
Maintenance of loans and investment spreadsheets							•	•
System Administrator (e.g. setting limits, new users)					•	•		
Responsibility for ensuring Bank Reconciliation performed					•			

### 5.3 Treasury Management Organisation Chart



### 5.4 Statement of Treasury Management Duties/Responsibilities of Each Treasury Post

**5.4.1** The responsible officer is the person charged with the execution and administration of treasury management decisions acting in accordance with the Council's policy statement and TMP's and as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. In this council this is the S151 Officer/Head of Finance or the Deputy Head of Finance in their absence, who will carry out the following duties:

- Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
- Submit treasury management policy reports as required.
- Submit budgets and budget variations in accordance with the Financial Regulations and Financial Procedure rules.
- Receive and review management information reports.
- Review the performance of the treasury management function and promote efficiency reviews.

- f) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- g) Ensure the adequacy of internal audit, and liaise with external audit.
- h) Recommend the appointment of external service providers, where applicable, in accordance with the Council's Financial Regulations and Financial Procedure Rules.
- i) The Head of Finance has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j) The Head of Finance may delegate this power to borrow and invest to certain members of staff as indicated in TMP 5.3 above. All transactions must be authorised by one of the named officers below:
  - Head of Finance (Section 151 Officer)
  - Deputy Head of Finance
  - Head of Business Support
  - Legal Services Manager
  - Head of Contact Centre
  - Head of Governance
- k) The Head of Finance will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Head of Finance to be satisfied, by reference to the council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations and Financial Procedure Rules.
- m) It is also the responsibility of the Head of Finance to ensure that the council complies with the requirements of 'The Non-Investment Products Code' for principals and broking firms in the wholesale markets.
- n) Prepare a Capital Strategy to include capital expenditure, capital financing and treasury management with a long-term timeframe.
- o) Ensure that the Capital Strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money.
- p) Ensure that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.

#### **5.4.2 Deputy Head of Finance (or delegated officer)**

The responsibilities of this post will be: -

- a) Execution of transactions.
- b) Adherence to agreed policies and practices on a day-to-day basis.
- c) Maintaining relationships with third parties and external service providers.
- d) Supervising treasury management staff.
- e) Monitoring performance on a day-to-day basis.
- f) Receives management information reports from the responsible officer.
- g) Identifying and recommending opportunities for improved practices.

### **5.4.3 Chief Executive**

The responsibilities of this post will be: -

- a) Ensuring that the Head of Finance reports regularly to the full Council on treasury policy, activity and performance.

### **5.4.4 The Monitoring Officer (Head of Business Support) or Deputy Monitoring Officer (Legal Services Manager)**

The responsibilities of this post will be: -

- a) Ensuring compliance by the Head of Finance with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the Head of Finance when advice is sought.

### **5.4.5 Internal Audit**

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures.
- b) Reviewing division of duties and operational practice.
- c) Undertaking probity audit of the treasury function (sampling transactions).

### **5.5 Absence Cover Arrangements**

Refer to the organisation chart at TMP 5.3 above and role responsibilities at TMP 5.4 above.

### **5.6 Dealing Limits**

Persons authorised to deal are identified at TMP 5.3 above and dealing limits are set out in TMP 1.1.1.

### **5.7 List of Approved Brokers**

A list of approved brokers is maintained within the Financial Services team (see TMP 11.1.2) and a record of all transactions recorded against them.

### **5.8 Policy on Brokers' Services**

It is the council's policy to rotate business between brokers in accordance with best practice.

### **5.9 Policy on Taping of Conversations**

It is not council policy to tape broker's conversations.

### **5.10 Direct Dealing Practices**

The council will consider dealing direct with counterparties if it is appropriate and the council believes that better terms will be available. There are certain types of accounts and facilities where direct dealing is required as follows:-

- National Westminster Call Account and 95 day Notice Account
- Santander Call Account and Fixed Term Deposit
- Handelsbanken 10 and 35 day Notice Account

Goldman Sachs International Bank via Link Asset Services to access Tranche rates

Standard Chartered Bank via Link Asset Services to access Tranche rates

Bank of Scotland 32 day Notice Account and Overnight Account

Qatar National Bank

Nationwide Building Society

SunGard Money Market Portal – currently authorised to deal with: -

- Deutsche Managed Sterling LVNAV Fund - Advisory
- Federated (PR) Short-Term GBP Prime Fund Class 3
- Blackrock ICS Sterling LVNAV Fund - core
- Goldman Sachs Sterling Reserves Fund 630
- LGIM Sterling Liquidity Fund Class 4
- Insight Sterling Liquidity Fund Class 5
- Aberdeen GB Liquidity Fund Class K1

### **5.11 Settlement Transmission Procedures**

Instructions are given by email with payments being transferred by 3.30pm on the same day. In the case of SunGard Money Market transactions, instructions are given via the internet and payments are made by 12.30pm for the Deutsche Managed Sterling LVNAV Fund, 1.30pm for the Federated (PR) Short-Term GBP Prime Fund and 1.00pm for all other funds.

### **5.12 Documentation Requirements**

For each deal undertaken a record should be prepared giving details of the dealer, amount, period, counterparty, interest rate, dealing date, payment date(s) and broker ( where applicable).

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

The Authority administers a number of third party funds totaling £61,004 at 31 March 2018. The largest being the North West District Surveyors Association with a balance held of £37,736 and several smaller funds including the Fielden Trust with a balance held of £7,005 at 31 March 2018.

The Fielden Trust balance is invested as part of the council's surplus funds and interest is calculated monthly, currently at 0.25%.

## **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

### **6.1 Annual Programme of Reporting**

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

As a minimum the Council will receive:

a) Annual reporting requirements before the start of the year:-

- (i) review of the organisation's approved clauses, treasury management policy statement and practices;
  - (ii) prudential and treasury indicators and treasury strategy report incorporating the capital strategy, the minimum revenue provision (MRP) policy, the treasury management strategy and investment strategy.
- b) A mid-year treasury management report  
c) Annual review report after the end of the year

## **6.2 Annual Treasury Management Strategy**

**6.2.1** The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then full Council for approval before the commencement of each financial year.

**6.2.2** The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

**6.2.3** The Treasury Management Strategy is concerned with the following elements:

- Prudential and Treasury Indicators
- current Treasury portfolio position
- borrowing requirement
- prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- investment strategy
- creditworthiness policy
- policy on the use of external service providers
- any extraordinary treasury issue (as necessary)
- the MRP policy statement

**6.2.4** The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.

## **6.3 The Annual Investment Strategy Statement**

At the same time as the Council receives the Treasury Management Strategy it will also receive a report on the Annual Investment Strategy which will set out the following: -

- a) The council's risk appetite in respect of security, liquidity and optimum performance

- b) The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
- c) Which specified and non-specified instruments the council will use
- d) Whether they will be used by the in house team, external managers or both (if applicable)
- e) The council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties
- f) Which credit rating agencies the council will use
- g) How the council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Interest rate outlook
- k) Budgeted investment return
- l) Use of a cash fund manager (if applicable)
- m) Policy on the use of external service providers (if applicable)

#### **6.4 The Annual Minimum Revenue Provision Statement**

This statement will set out how the council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Treasury Management and Annual Investment Strategy.

#### **6.5 Policy On Prudential and Treasury Indicators**

**6.5.1** The Council approves before the beginning of each financial year a number of treasury limits referred to as the Prudential and Treasury Indicators.

**6.5.2** The Head of Finance is responsible for incorporating these limits into the Annual Treasury Management Strategy and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Head of Finance shall submit the changes for approval to full Council.

#### **6.6 Mid-Year Review**

The Council will review its treasury management activities on a six monthly basis. This review will consider the following: -

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

#### **6.7 Annual Report on Treasury Management Activity**

An annual report will be presented to Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a) Transactions executed and their revenue effects;
- b) Report on risk implications of decisions taken and transactions executed;

- c) Compliance report on agreed policies and practices and all statutory/regulatory requirements;
- d) Performance Report;
- e) Report on compliance with the CIPFA Treasury Management Code; and
- f) Monitoring of treasury management indicators.

#### **6.8 Management Information Reports**

Management information reports are prepared quarterly and contain the following information:-

- a) A summary of transactions executed, brokers used and fees paid and their revenue effect; and
- b) Measurements of performance such as loan charges/investment income.

#### **6.9 Publication of Treasury Management Reports**

Reports presented to Council are available to view on the council's website [www.wyre.gov.uk](http://www.wyre.gov.uk).

### **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

#### **7.1 Statutory/Regulatory Requirements**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting which is recognised by statute as representing proper accounting practices.

The council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this council's treasury management activities.

#### **7.2 Sample Budgets / Accounts/ Prudential and Treasury Indicators**

The Head of Finance will prepare a five year medium term financial plan with Prudential and Treasury Management Indicators reflecting the overall budget for the current year and provisional estimates for the following four years. This will include the costs involved in running the function and any associated income. The Deputy Head of Finance will exercise effective controls over this budget and monitor performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

#### **7.3 List of Information Required by the External Auditors**

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances where applicable

- Interest accrual calculation
- Principal and interest charges reports from Civica
- Analysis of any deferred charges where applicable
- Annual Treasury Report
- Treasury Management and Annual Investment Strategy and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the MRP

#### **7.4 Budget Monitoring Report**

Year to date and forecast outturn against budget, with variances, are examined in terms of interest and treasury management expenses as part of the council's monthly budget monitoring.

### **TMP 8 CASH AND CASH FLOW MANAGEMENT**

#### **8.1 Arrangements for Preparing/Submitting Cash Flow Statements**

Cash flow projections are prepared annually and daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income, and expenditure and also changes in payment and receipt dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

#### **8.2 Bank Statement Procedures**

The council downloads data daily from its bank. All amounts on downloads are checked to source data from payroll, creditors etc. A formal bank reconciliation is undertaken on a monthly basis.

#### **8.3 Payment Scheduling and Agreed Terms of Trade with Creditors**

In the present economic climate and in line with a request from the Government, we have committed to paying 80% of invoices within 10 days (local performance indicator RES23). In the 2017/18 financial year 69.27% of invoices were paid within 10 days. However payments to individuals, in relation to refunds are immediate.

#### **8.4 Arrangements for Monitoring Debtor/Creditor levels**

Details are passed to the treasury team on a regular basis to assist in updating the cash flow model.

#### **8.5 Procedures for Banking of Funds**

All money received by an Officer on behalf of the council will without unreasonable delay be paid into the council's bank accounts via the Financial Services team. The cashier will notify the Financial Services Officer on Monday and Tuesday of cash and cheques banked on the Friday and Monday so that the figures can be taken into account in the daily cash flow.

## **8.6 Practices Concerning Prepayments to Obtain Benefits**

The council has no formal arrangements in place. Where such opportunities arise (for example whereby a payment in advance would secure a further discount) the prepayment would be authorised by the responsible officer.

A report went to Cabinet on 15 February 2017 agreeing prepayment of pension contributions in principle and delegating ultimate authority to the Head of Finance to make the final decision. The prepayment of three years' pension contributions (commencing April 2017) was made to the Lancashire County Pension Fund in May 2017.

## **TMP 9 MONEY LAUNDERING**

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

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to any person in the UK in a personal or professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

### **9.2 The Terrorism Act 2000**

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

### **9.3 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017**

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients

and transactions undertaken and report their suspicions. In June 2017 the UK Government published the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, which replaced the Money Laundering Regulations 2007.

#### **9.4 Local Authorities**

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Terrorist Financing and Transfer of Funds Regulations 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, this council comply and have an Anti-Money Laundering Policy which is reviewed annually by Audit Committee and most recently on 13 November 2018.

#### **9.5 Procedures for Establishing Identity / Authenticity of Lenders**

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be affected by following the procedures below.

- The council does not accept loans from individuals. All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the Financial Conduct Authority website on [www.fca.org.uk](http://www.fca.org.uk).

#### **9.6 Methodologies for Identifying Sources of Deposits**

In the course of its Treasury activities, the council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. (The Financial Services register can be accessed through the FCA website on [www.fca.org.uk](http://www.fca.org.uk)).

All transactions will normally be carried out by BACS/CHAPS for making deposits or repaying loans.

### **TMP 10 TRAINING AND QUALIFICATIONS**

**10.1** The council recognises the importance of ensuring that all relevant individuals involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the council.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The council operates a Performance Appraisal Scheme which identifies the training requirements of individual members of staff engaged on treasury related

activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Deputy Head of Finance to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who, from time to time cover for absences from the treasury management team.

All staff responsible for Treasury Management training were invited to attend a Treasury Management Training session delivered by Link Asset Services on 18 January 2018 and further training will be arranged as required.

- b) Members charged with governance of the treasury management function. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. All members responsible for scrutiny were invited to attend a Treasury Management training session delivered by Link Asset Services on 18 January 2018 and a further training session was held on 13 November 2018. Training will continue to be held as required.

## **10.2 Details of Approved Training Courses**

Treasury management staff will attend courses provided by our treasury management consultants, CIPFA, etc.

## **10.3 Records of Training Received by Treasury Staff**

Records are maintained within the HR21 system and on individual officers' Personal Development Plans.

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

Staff involved with the day to day treasury management function, have the following incorporated within their job description:

- To manage the council's day to day investment and borrowing requirements in accordance with the Treasury Management Strategy.
- To assist with the drafting of the Treasury Management Strategy and associated Member reports.

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

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

## **10.6 Member training records**

Records will be kept by Democratic Services of all training in treasury management provided to members.

## **10.7 Members charged with governance**

The Overview and Scrutiny Committee has been nominated as the responsible body for ensuring scrutiny of the treasury management strategy and policies. Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

## **TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**

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

This council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there is potential value in employing external providers to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest. It will also ensure that the terms of their appointment are subject to regular review.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

#### **11.1.1 Banking services**

- a) Name of supplier of service: National Westminster Bank.  
The branch address is:  
Victoria Square,  
Thornton Cleveleys  
FY5 2AL  
Tel: - 0845 3021590
- b) Regulatory status – banking institution authorised to undertake banking activities by the FCA
- c) 3 year contract commencing 1/4/16
- d) Cost of service is variable depending on schedule of tariffs and volumes
- e) Payments due quarterly

### **11.1.2 Money-broking services**

The council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the following approved brokers.

Name of supplier of service:

- a) RP Martin Brokers (UK)( Trading name of BGC Brokers LP  
Cannon Bridge House  
25 Dowgate Hill  
London  
EC4R 2BB  
Tel: 0207 469 9000  
Regulatory Status: BGC Brokers LP FCA Authorised 454814
- b) Tullett Prebon Europe Ltd  
Tullett Prebon Group Ltd  
155 Bishopsgate,  
London,  
EC2M 3TQ  
Tel: 020 7200 7000  
Regulatory Status: FCA Authorised 146880
- c) Tradition UK Ltd  
Beaufort House  
15 St. Botolph Street  
London  
EC3A 7QX  
Tel: 0207 377 0050  
Regulatory Status: FCA Authorised 139200

When undertaking temporary borrowing, the brokers currently charge commission at 1% of interest due. There is no commission charge for undertaking investment transactions.

### **11.1.3 Consultants'/advisers' services**

Treasury Consultancy Services

The council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

- a) Name of supplier of service is: Link Asset Services Limited. Their address is:  
6<sup>th</sup> Floor  
65 Gresham Street  
London  
EC2V 7NQ  
Tel: 0871 664 6800
- b) Regulatory Status: Investment Advisor authorised by the FCA 150403
- c) 3 year contract commenced 01.04.17.
- d) Cost of the service is £7,750 per year.
- e) Payments due in two instalments in September and March.

#### **11.1.4 Leasing Consultancy Services**

The council currently has no requirement for leasing consultancy but previously used Chrystal Consulting. Other Consultancy services may be employed on short-term contracts as and when required.

#### **11.1.5 Custodian Facility**

The council will use a Custodian Facility as required when it invests in Certificates of Deposit (CD's).

#### **11.1.6 Credit Rating Agency**

The council receives a credit rating service through its treasury management consultants, the cost of which is included in the consultant's annual fee.

#### **11.2 Procedures and Frequency for Tendering Services**

The banking contract was recently retendered and a three year contract commenced 1/4/16 with option to extend. The treasury consultancy service was renewed for a three year period commencing 1/4/17 after a favourable benchmarking exercise. The process for advertising and awarding contracts will be in line with the Council's Financial Regulations and Financial Procedure Rules.

### **TMP 12 CORPORATE GOVERNANCE**

#### **12.1 List of Documents to be Made Available for Public Inspection**

- a) The council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b) It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c) The following documents are available for public inspection: -
  - Statement of Accounts
  - Revenue Estimates and Capital Programme
  - Medium Term Financial Plan
  - Treasury Management Policy Statement and Practices
  - Treasury Management and Annual Investment Strategy
  - MRP Policy Statement
  - Annual Treasury Management Report
  - Half Yearly Treasury Management Report
  - Minutes of Council/Cabinet/Overview and Scrutiny Committee Meetings
  - Capital Strategy

**TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY 2019/20**

**1. Introduction**

**1.1 Background**

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer term cash flow planning to ensure that the council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet council risk or cost objectives.

The contribution of the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure the adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

*“The management of the local authority'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.”*

Revised reporting is required for the 2019/20 reporting cycle owing to revisions of the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a Capital Strategy see Appendix 5, to provide a longer term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

A report to Cabinet on 16 January 2019 established a new Property Investment Fund. This fund has been established to allow the council to explore the income generation potential from an expanded property portfolio and the economic regeneration this can create in line with the council's business plan.

## **1.2 Reporting requirements**

### **Capital Strategy**

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare a capital strategy report which will provide the following:

- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

The aim of the capital strategy which is included within this report at Appendix 5 is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

### **Treasury Management Reporting**

The council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

### **Prudential and Treasury Indicators and Treasury Strategy (this report) -**

The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

**A Mid-Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

**An Annual Treasury Report** – This provides details of a selection of actual prudential indicators and actual treasury operations compared to the estimates within the strategy.

## **Scrutiny**

The Overview and Scrutiny Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies and their annual work programme reflects this requirement.

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

The strategy for 2019/20 covers two main areas:

#### **Capital Issues**

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

#### **Treasury Management Issues**

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on the use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the MHCLG MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

### **1.4 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. All members were invited to attend a Treasury Management training session delivered by our Treasury Management Consultants prior to the Council meeting 18 January 2018 and a further training session was held on 13 November 2018 for Overview and Scrutiny Committee. Training will be ongoing as required.

The training needs of treasury management officers are periodically reviewed.

### **1.5 Treasury Management Consultants**

The council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

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 providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **2. The Capital Prudential Indicators 2018/19 to 2023/24**

The council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The Prudential Indicators, capital expenditure plans and how these plans are being financed by capital or revenue resources were approved by Cabinet at its meeting on 13 February 2019.

### **2.1 Capital Expenditure**

This prudential indicator is a summary of the council's Capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital expenditure	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Total	12.640	9.084	6.226	2.828	1.993	1.830	1.842

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The following table below summarises how the previous table's capital expenditure plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to borrow.

Financing of Capital Expenditure	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £,000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital receipts	90	63	36	0	0	0	0
Capital Grants and Contributions	12,124	7,973	3,081	2,401	1,769	1,769	1,769
Revenue/Reserves	426	1,048	3,109	427	224	61	73
Net financing need for the year	0	0	0	0	0	0	0

## 2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital sources. It is essentially a measure of the council's indebtedness and so it's underlying borrowing need. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI Schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the council is not required to separately borrow for these schemes. The council does not currently have any such schemes within the CFR.

	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Financing Requirement							
Total CFR	11,452	11,356	11,260	11,164	11,068	10,972	10,876
Movement in CFR	-96	-96	-96	-96	-96	-96	-96

Movement in CFR represented by							
MRP and other financing movements	96	96	96	96	96	96	96

The council's Capital Financing Requirement is shown gross of Adjustment A (the unreconciled difference between the previous credit ceiling and the new CFR per the Prudential Code). In essence, Adjustment A provides a debt liability of £9.5m which the council is not required to repay through MRP.

## 2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Fund balances/ reserves	21,306	21,281	19,497	18,223	16,644	14,774	12,375
Capital receipts	147	698	662	662	662	662	662
Provisions	1,783	1,783	2,496	2,496	2,496	2,496	2,496
Other							

<b>Total core funds</b>	23,236	23,762	22,655	21,381	19,802	17,932	15,533
Working capital*	436	436	436	436	436	436	436
<b>Expected Investments</b>	23,672	24,198	23,091	21,817	20,238	18,368	15,969

\*Working capital balances shown are estimated year-end; these may be higher mid-year.

## 2.4 Minimum Revenue Provision Policy Statement

The council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP). MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Policy Statement at Appendix 4.

## 2.4 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the council's overall finances.

%	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Ratios	0.59	0.40	0.16	-0.29	0.13	-0.05	-0.05

This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream.

## 2.5 Control of Interest Rate Exposure

Please see following paragraphs 3.3 and 3.4 and 4.4.

## 3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1. Current portfolio position

The overall treasury management portfolio as at 31 March 2018 and for the position as at 11 February 2019 are shown below for borrowing and investments.

<b>Treasury Portfolio</b>				
<b>Treasury Investments</b>	<b>Actual 31.03.18 £000</b>	<b>Actual % 31.03.18</b>	<b>Current 11.02.19 £000</b>	<b>Current % 11.02.19</b>
Banks	9,775	68%	18,670	76%
Money Market Funds	1,650	11%	6,000	24%
Local Authority	3,000	21%	0	0%
Total Treasury Investments	14,425	100%	24,670	100%
Total External Borrowing	1,552	100%	1,552	100%
Net Treasury Investments	12,697			

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

<b>£000</b>	<b>2017/18 Actual</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>
<b>External Debt</b>							
Debt at 1 April	1,552	1,552	1,552	1,552	1,552	1,552	1,552
Expected change in Debt	0	0	0	0	0	0	0
Other Long Term Liabilities (OLTL)	7	7	7	7	7	7	7
Expected change in OLTL	0	0	0	0	0	0	0
<b>Actual Gross Debt at 31 March</b>	<b>1,560</b>	<b>1,560</b>	<b>1,560</b>	<b>1,560</b>	<b>1,560</b>	<b>1,560</b>	<b>1,560</b>
<b>Capital Financing Requirement</b>	<b>11,452</b>	<b>11,356</b>	<b>11,260</b>	<b>11,164</b>	<b>11,068</b>	<b>10,972</b>	<b>10,876</b>
<b>Under/(over) borrowing</b>	<b>9,892</b>	<b>9,796</b>	<b>9,700</b>	<b>9,604</b>	<b>9,508</b>	<b>9,412</b>	<b>9,316</b>

Within the range of prudential indicators there are a number of key indicators to ensure that the council operates its activities within well-defined limits. One of these is that the council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited, early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### **3.2. Treasury Indicators: Limits to Borrowing Activity**

The Council is required to approve an 'authorised limit' and an 'operational boundary' for external debt. The Treasury Management indicators were approved by the Cabinet at its meeting on 13 February 2019 alongside the prudential indicators, capital expenditure plans and how these plans are being financed by capital or revenue resources.

### The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Debt	13,452	13,452	13,452	13,452	13,452	13,452
Other long term liabilities	7	7	7	7	7	7
Total	13,459	13,459	13,459	13,459	13,459	13,459

### The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. The 'authorised limit' is a prudent estimate of external debt, but allows sufficient headroom for unusual cash flow movements.

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

The Council is asked to approve the following authorised limit:

Authorised limit	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Debt	20,000	20,000	20,000	20,000	20,000	20,000
Other long term liabilities	0	0	0	0	0	0
Total	20,000	20,000	20,000	20,000	20,000	20,000

### 3.3. Prospects for Interest Rates

The council has appointed Link Asset Services (formerly Capita Asset Services) as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates and provide an economic commentary as follows:-

Annual Average % as at the quarter ending:	Bank Rate %	PWLB Rates %			
		5 year	10 year	25 year	50 year
March 2019	0.75	2.10	2.50	2.90	2.70
June 2019	1.00	2.20	2.60	3.00	2.80
Sept 2019	1.00	2.20	2.60	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.10	2.90
March 2020	1.25	2.30	2.80	3.20	3.00
June 2020	1.25	2.40	2.90	3.30	3.10
Sept 2020	1.25	2.50	2.90	3.30	3.10
Dec 2020	1.50	2.50	3.00	3.40	3.20
March 2021	1.50	2.60	3.00	3.40	3.20
June 2021	1.75	2.60	3.10	3.50	3.30

Sept 2021	1.75	2.70	3.10	3.50	3.30
Dec 2021	1.75	2.80	3.20	3.60	3.40
March 2022	2.00	2.80	3.20	3.60	3.40

The flow of generally positive economic statistics after the quarter ended 30 June 2018 meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left the Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase the Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, there has been a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. 2016 saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be

liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

### **Investment and borrowing rates**

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

Borrowing interest rates have been volatile so far in 2018/19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, there is a need for this to be carefully reviewed to avoid incurring high borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of mature debt;

There will remain a 'cost of carry' (the difference between borrowing costs and investment returns ) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### **3.4. Borrowing Strategy**

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- **if it were felt that there was a significant risk of a sharp FALL in long and short term rates**, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- **if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast**, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to Council at the next available opportunity.

The council doesn't have any plans in the short to medium term to undertake any further borrowing.

### **3.5 Policy in Borrowing in Advance of Need**

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

### **3.6 Debt Rescheduling**

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- a) The generation of cash savings and/or discounted cash flow savings;
- b) Helping to fulfil the treasury strategy;
- c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investment are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Council at the earliest meeting following its action.

## 4. Annual Investment Strategy

### 4.1 Investment policy

The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code") and the CIPFA Treasury Management Guidance Notes 2018. The council's investment priorities will be security first, liquidity second and then return.

The above guidance from MHCLG and CIPFA place a high priority on the management of risk. The authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. Other information: ratings will not be the sole determinant of quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. **Types of investment instruments** identified for use in the financial year are listed in Treasury Management Practices (TMP) Schedule 1 under the 'specified' and 'non-specified' investments categories.
5. **Lending limits** for each counterparty are set in the Creditworthiness policy (see 4.2).
6. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see 4.4).
7. This authority has engaged **external consultants**, (see 1.5) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
8. All investments will be denominated in **sterling**.

9. As a result of the change in accounting standards for 2018/19 under **IFRS9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing 1 April 2018.)

#### 4.2 Creditworthiness Policy

This council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the council to determine the suggested duration for investments. The council will therefore use counterparties within the following durational bands:

- Yellow 5 years (only Local Authorities)
- Dark Pink 5 years for Ultra-Short Dated Bond Funds with credit score of 1.25
- Light Pink 5 years for Ultra-Short Dated Bond Funds with credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour Not to be used

Organisation	Minimum credit criteria / colour band	Max Amount per institution	Max. maturity Period
Term deposits with UK Clearing Banks and UK Building Societies	Purple	£6m	Up to 2 years
	Blue	£6m	Up to 1 year*
	Orange	£6m	Up to 1 year
	Red	£6m	Up to 6 months
	Green	£6m	Up to 100 days

Term Deposits with Other Banks	Orange Red Green	£6m £6m £6m	Up to 1 year Up to 6 months Up to 100 days
Certificates of Deposit with UK Clearing Banks and UK Building Societies	Purple Blue Orange Red Green	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year* Up to 1 year Up to 6 months Up to 100 days
UK Local Authorities	Yellow	£6m £6m	Up to 5 years Up to 1 year
Ultra-Short Dated Bond with credit score of 1.25	Dark pink / AAA	£6m	liquid
Ultra- Short Dated Bond Funds with credit score of 1.5	Light pink / AAA	£6m	liquid
Money Market Funds - CNAV, LVNAV or VNAV	AAA	£6m	liquid

\* Part nationalised banks

The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just once agency's ratings.

Typically the minimum credit ratings criteria the council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly but the council is alerted to changes to ratings of all three agencies through the use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme

market movements may result in the downgrade of an institution or removal from the council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the council will also use market data and market information and information on any external support for banks to help support its decision making process.

#### **4.3 UK Banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail/Small and Medium sized Enterprise(SME) deposits), are required by law, to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as 'ring-fencing'. While smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its regulatory group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

#### **4.4 Country Limits**

The council has determined that it will only use approved counterparties from countries (excluding the UK) with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at 21 January 2019 are shown in Annex 1. This list will be added to, or deducted from, by officers should ratings change prior to any investments being made outside of the UK.

#### **4.4 Investment Strategy**

##### **In-House Funds**

Investments will be made with reference to the level of earmarked reserves and cash flow requirements and the outlook for short term interest rates (i.e. rates for Investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cashflow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that the Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

### **Investment returns expectations**

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

- 2018/2019 0.75%
- 2019/2020 1.25%
- 2020/2021 1.50%
- 2021/2022 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods of up to about three months during each financial year are as follows:

- 2018/2019 0.75%
- 2019/2020 1.00%
- 2020/2021 1.50%
- 2021/2022 1.75%
- 2022/2023 1.75%
- 2023/2024 2.00%
- Later years 2.50%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rates and shorter term PWLB rates, are probably also even and are dependent on the strength of GDP growth, how slowly inflation pressures subside and how quickly the Brexit negotiations move forward positively. The council has determined the budget for investment returns at 0.90% on investments placed during the 2019/20 financial year. This was based on the current investment profile.

### **4.5 Investment treasury indicator**

There are currently no plans for funds to be invested for a period greater than 364 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end. For its cash flow generated balances, the council will seek to utilise its instant access and notice accounts, money market funds, short dated deposits (overnight to 100 days) and 6 month deposits in order to benefit from compounding of interest.

#### **4.6 Investment risk benchmarking**

This council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID (London Interbank Bid Rate).

#### **4.7 End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

#### **4.8 Non-treasury investments**

This council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios. This council will ensure that all of its investments are covered in the capital strategy, investment strategy or equivalent and will set out, where relevant, the council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. The council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the council's risk exposure where applicable.

The establishment of a £1m Property Investment Fund was approved by Cabinet on 16 January 2019. The Property Investment Board will oversee all decisions that have been delegated to the Service Director for Performance and Innovation in consultation with the Resources Portfolio Holder. The criteria detailed in the Commercialisation Strategy will be applied to all potential investment property opportunities.

Investigations into policy driven initiatives and investments are allowed under the Capital and Investment Strategies under the delegated authority of the s.151 Officer.

**Approved Countries for Investment (as at 21/01/19)**

This list is based on those countries which have sovereign ratings of AA- or higher (the lowest rating from Fitch, Moody's and Standards & Poor are shown) and also (except – at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

**Based on lowest available rating**

## AAA

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

## AA+

- Finland
- U.S.A.

## AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

## AA-

- Belgium
- Qatar

## MINIMUM REVENUE PROVISION POLICY STATEMENT 2019/20 (England and Wales)

### 1. The Council's Adopted Approach

The council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2019/20 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003 and the revised guidance issued in 2018.

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure and from 1 April 2008, for all unsupported borrowing (including PFI and finance leases) the policy will be Asset Life method. Capital expenditure will under delegated powers be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (Asset Life Method). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed be reclaimed in later years if deemed necessary or prudent. The council does not have any such overpayments.