OVERVIEW AND SCRUTINY ITEM, DRAFT FOR CONSIDERATION PRIOR TO FULL COUNCIL

RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**COUNCIL**
DATE:	**21 FEBRUARY 2019**
REPORT OF THE:	**CHIEF FINANCE OFFICER (s151)** **ANTON HODGE**
TITLE OF REPORT:	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2019/20**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To consider the Treasury Management, Annual Investment and Capital Strategies, the Minimum Revenue Provision Policy and Prudential Indicators for 2019/20, as required by the Ministry of Housing, Communities and Local Government and CIPFA (as updated 2017)..

2.0 RECOMMENDATIONS

2.1 That Council is recommended to approve:

(i) Members receive this report;

(ii) The Operational Borrowing Limit for 2019/20 is set at £5.5m;

(iii) The Authorised Borrowing Limit for 2019/20 is set at £11m;

(iv) Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed authorised boundary limits for long-term borrowing for 2019/20 onwards.

(v) Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed operational boundary limits for long-term borrowing for 2019/20 onwards.

(vi) The treasury management strategy statement 2019/20 be approved.

(vii) The minimum revenue provision policy statement for 2019/20 be approved.

(viii) The treasury management investment strategy for 2019/20 be approved.

(ix) The prudential indicators for 2019/20 which reflect the capital expenditure plans which are affordable, prudent and sustainable be approved.

(x) The Capital Strategy for 2019/20 be approved

3.0 REASON FOR RECOMMENDATIONS

3.1 To ensure the Council's Treasury Management Strategy and association policies are prudent and affordable.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment policy, these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code and the relevant requirements of the Local Government Act 2003.

5.2 The Council use the services of Link Asset Services to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

6.1 TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20

6.1.1 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.

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

6.1.3 The contribution 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 adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

6.1.4 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting Requirements

6.1.5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

6.1.6 **Capital Strategy**

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

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

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

6.1.7 **Treasury Management Reporting**

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

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 the treasury strategy or whether any policies require revision.

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

Treasury Management Strategy for 2018/19

6.1.8 The strategy for 2018/19 covers two main areas

Capital Issues
- The capital plans and prudential indicators
- The MRP strategy

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;
- The investment strategy; and
- Creditworthiness policy.

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

6.1.9 **Training**

The CIPFA Code requires the Chief Finance Officer to ensure that members with responsibility for treasury management, particularly those with responsibility for scrutiny, receive adequate training in treasury management. Training has been provided to members by Link Asset Services and further training will be arranged as required.

6.1.10 **Treasury Management Consultants**

The Council uses Link Asset Services, Treasury Solutions as it 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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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.

6.2 THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

6.2.1 Introduction

6.2.1.1 The 'Prudential Code' provides Council's with a regime of self-regulation for borrowing money for capital purposes. A local authority can borrow as much as it wishes as long as it can afford the repayments. The Code outlines four key objectives relating to the capital investment plans and treasury management procedures of local authorities. To demonstrate that these objectives are being fulfilled the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account.

6.2.1.2 The Code prescribes how the issue of affordability is measured using a set of prudential indicators. The four key objectives of the Code are to ensure that capital investment plans of local authorities are affordable, prudent and sustainable, and to ensure that treasury management decisions are taken in accordance with good professional practice. The indicators are mandatory but the figures used in the calculations are a matter for each local authority.

6.2.1.3 The prudential indicators required by the Code are designed to support and record local decision-making. They are not designed to be comparative performance indicators and the use of them in this way would be likely to be misleading and counter-productive.

6.2.1.4 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

6.2.2 Capital Expenditure.

6.2.2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts. These are currently based draft estimates and final budget proposals will be updated prior to Council approval.

Table 1: Capital Expenditure

Capital Expenditure	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/20 Estimate £'000
Capital Programme	852	721	791	811	811

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

Table 2: Financing of Capital Expenditure

6.2.2.2 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing):

Capital Expenditure	2017/18 Actual £'000	2018/19 Est. £'000	2019/20 Est. £'000	2020/21 Est. £'000	2021/22 Est. £'000
General Fund	852	3,721	791	811	811
Total	**852**	**3,721**	**791**	**811**	**811**
Financed By:					
Revenue & Reserves	-114	-3,034	-295	-315	-315
Capital Receipts	-86	0	0	0	0
Grants	-652	-687	-496	-496	-496
Borrowing - Leases					
Net Financing Need	**0**	**0**	**0**	**0**	**0**

6.2.3 **The Council's Borrowing Need (the Capital Financing Requirement)**

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

6.2.3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life. The Council is asked to approve the CFR projections below:

Table 3: Capital Financing Requirement

	2017/18 Actual £000	2018/19 Est. £000	2019/20 Est. £000	2020/21 Est. £000	2021/22 Est. £000
CFR General Fund	1,659	1,624	1,589	1,553	1,518
CFR GF Leases	388	240	113	25	0
CFR Commercial / Non-financial investments	0	0	0	0	0
Total CFR	**2,047**	**1,864**	**1,702**	**1,579**	**1,518**
Movement in CFR	-179	-183	-162	-123	-61
Movement in CFR represented by:-					
Net Financing need for the year	0	0	0	0	0
Less MRP & Other Financing movements	-179	-183	-162	-123	-61
Movement in CFR	**-179**	**-183**	**-162**	**-123**	**-61**

6.2.3.3 Following accounting changes the CFR includes any other long term liabilities (e.g.

finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. These are also shown in Table 3.

6.2.4 **Affordability Prudential Indicators**

6.2.4.1 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. The Council is asked to approve the following indicator:

6.2.4.2 The indicator of actual and estimates of the ratio of financing costs to net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. These are shown in Table 4. The estimates of financing costs include current commitments and the proposals in this report.

Table 4: Ratio of Financing Costs to Net Revenue Stream

	2017/18 Actual %	2018/19 Est. %	2019/20 Est. %	2020/21 Est. %	2021/22 Est. %
General Fund	2.64	1.84	0.51	-0.66	-1.95

6.3 MINIMUM REVENUE PROVISION POLICY STATEMENT 2019/20

Introduction

6.3.1 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 Policy Statement in advance of each year. A variety of options are provided to councils so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

6.3.2 **Minimum Revenue Provision Policy**

6.3.2.1 The Council's MRP policy is based on the Governments Statutory Guidance and following a review no further changes are considered necessary and the policy for 2019/20 is therefore as follows:

(a) For all **Capital expenditure incurred before 1 April 2008** which formed the General Fund Capital Financing Requirement (CFR) that is capital expenditure funded through borrowing will be charged at 4% of the outstanding balance each year.

(b) From 1 April 20018 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life

Total MRP for 2019/20 is estimated at £0.183m, (£0.035 internal borrowing, and £0.148m for leases).

6.3.2.2 MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments (VRP), can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. At present there are no plans to make voluntary revenue provisions (VRP).

6.4 BORROWING STRATEGY 2019/20

6.4.1 The capital expenditure plans 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 the service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.4.2 The Council's treasury portfolio position at 31 December 2018, is shown in Table 1.

Table 1: Current Treasury Portfolio at 31/12/18

		Principal		Ave. Rate
		£m	£m	%
Fixed rate funding	PWLB	1.6		
	Market	0.0	1.6	3.49
Variable rate funding	PWLB	0.0		
	Market	0.0	0.0	0
Other long term liabilities	Leases	0.4	0.4	4.69
Total Debt			**2.0**	**4.19**
Total Investments			**26.65**	**0.87**

6.4.3 Forward projections are summarised in Table 2. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2: Forecasted Portfolio Position

	2018/19 F'cast £000	**2019/20 F'cast £000**	**2020/21 F'cast £000**	**2021/22 F'cast £000**
External Borrowing				
Borrowing at 1 April	1,632	1,592	1,553	1,513
Expected Change in Borrowing	-39	-39	-39	-39
Leases	240	113	25	0
Actual Borrowing at 31 March	**1,832**	**1,666**	**1,538**	**1,474**
CFR - the borrowing need	1,864	1,702	1,579	1,518
Under / (over) borrowing	**32**	**36**	**40**	**44**
Investments				
Total Investments	20,052	17,675	17,759	17,780
Investment Change	144	-2,377	84	21
Net Borrowing	**-18,220**	**-16,009**	**-16,221**	**-16,306**

6.4.4 **Treasury Limits for 2019/20 to 2021/22**

6.4.4.1 Ryedale District Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending

6.4.4.2 CIPFA's Prudential code for Capital Finance in Local Authorities' includes the following key indicator of prudence;

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years."

6.4.4.3 The Chief Finance Officer reports that the authority had no difficulty meeting this requirement in 2017/18, nor are any difficulties envisaged for the current (2018/19) or future years (2020/21 – 2021/22). This view takes into account current commitments, existing plans and the proposals in the budget.

6.4.4.4 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

6.4.4.5 Whilst termed an "Affordable Borrowing Limit", it incorporates the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements.

6.4.4.6 The Authorised Limit for external borrowing is a key prudential indicator and represents a control on the maximum level of borrowing. It is a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council on a rolling basis, for the forthcoming financial year and two successive financial years. This information is shown in table 3.

Table 3: Authorised Borrowing Limit

Authorised Limit	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Debt	10,000	10,000	10,000	10,000
Other long term liabilities	1,000	1,000	1,000	1,000
Total	**11,000**	**11,000**	**11,000**	**11,000**

6.4.4.7 The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed and within which officers will manage the Council's external debt position. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing. This information is shown in table 4.

Table 4: Operational Borrowing Limit

Operational Boundary	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	500	500	600	600
Total	**5,500**	**5,500**	**5,600**	**5,600**

6.4.4.8 In respect of its external debt, table 3 details the proposed authorised limits for the Council's total external debt gross of investments for the next three financial years which councillors are recommended to approve. These limits separately identify borrowing from other long-term liabilities such as finance leases. It is also recommended that members continue to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to Overview & Scrutiny Committee at its next meeting following the change.

6.4.4.9 The Chief Finance Officer reports that these authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Chief Finance Officer confirms that they are based on the estimate of the most likely, prudent but not worst-case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

6.4.5 Prospects for Interest Rates

6.4.5.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 1 draws together a number of current city forecasts for short term (bank rate) and longer fixed interest rates. Table 5 gives the Link central view.

Table 5: Link View interest rate forecast – January 2019

	Bank Rate	PWLB Borrowing Rates (including 0.2% discount)			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
Mar 2019	0.75	2.10	2.50	2.90	2.70
Sept 2019	1.00	2.20	2.60	3.10	2.90
Mar 2020	1.25	2.30	2.80	3.20	3.00
Sept 2020	1.25	2.50	2.90	3.30	3.10
Mar 2021	1.50	2.60	3.00	3.40	3.20
Sept 2021	1.75	2.70	3.10	3.50	3.30

6.4.6 Borrowing Requirement

6.4.6.1 The Council is currently forecasting a marginally under-borrowed position in 2018/19. This means that the Council's capital borrowing is lower than the underlying need to borrow. As a result of the capital expenditure plans set out in 6.2.2, Table 1 the Council is expected to be maintain an under-borrowed position from 2019/20 onwards as shown in Table 6 below. This is a prudent strategy as investment returns are low and counterparty risk is relatively high – this approach will be carefully monitored during 2019/20.

Table 5: Borrowing Position

Under / (Over) Borrowing	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
External Debt				
GF Ext Borrowing	1,592	1,553	1,513	1,474
Capital Financing Requirement	1,624	1,589	1,553	1,518
Under / (Over) Borrowing	32	36	40	44

* The table above excludes leases from the under / over borrowed position, unlike table 2 – Forecasted Portfolio Position.

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

6.4.6.3 The current capital programme funding forecasts for 2019/20 to 2021/22 shows there is currently no borrowing requirement. However, borrowing needs will be reviewed as the capital programmes are confirmed. Any decisions will be reported to Overview & Scrutiny committee at the next available opportunity.

6.4.7 Treasury Management Limits on Activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

%	2019/20 £'000	2020/21 £'000	2021/22 £'000
Interest Rates Exposure	**Upper**	**Upper**	**Upper**
Borrowing:			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	5%	5%	5%
Investments:			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	50%	50%	50%
Maturity Structure New Borrowing 2019/20		**Lower**	**Upper**
Under 12 months		0%	20%
12 Months and within 2 Years		0%	20%
2 Years and within 5 Years		0%	50%
5 Years and within 10 Years		0%	50%
10 Years and within 15 Years		0%	50%
15 Years and over		90%	20%

Policy on Borrowing in Advance of Need

6.4.7.2 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.5 ANNUAL INVESTMENT STRATEGY STATEMENT 2019/20

6.5.1 Introduction

6.5.1.1 The Council's investment policy has regard to the MHCLGs Guidance on Local Government Investments ("the Guidance") and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Guidance leaves local authorities free to make their own investment decisions, subject to the fundamental requirement of an Annual Investment Strategy being approved by the Council before the start of the financial year.

6.5.1.2 This Annual Investment Strategy must define the investments the Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non-specified investments**.

6.5.2 Revisions to the Annual Investment Strategy

6.5.2.1 In addition to this Investment Strategy, which requires approval before the start of the financial year, a revised Strategy will be submitted to Council for consideration and approval under the following circumstances:

(a) significant changes in the risk assessment of a significant proportion of the Council's investments;

(b) any other significant development(s) that might impact on the Council's investments and existing strategy for managing those investments during 2019/20.

6.5.3 Investment Policy

6.5.3.1 The Parameters of the Policy are as follows:

(a) the Council will have regard to the Government's Guidance on Local Government Investments "the guidance", and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes, "the code";

(b) the Council's investment policy has two fundamental objectives;

- the security of capital (protecting the capital sum from loss); and then

- the liquidity of its investments (keeping the money readily available for expenditure when needed)

(c) the Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the Council is low in order to give priority to the security of its investments;

(d) the borrowing of monies purely to invest or lend and make a return is unlawful and the Council will not engage in such activity;

(e) investment instruments for use in the financial year listed under specified and non-specified investment categories (see paragraph 5.1);

6.5.4 Specified and non-specified Investments

6.5.4.1 Based on Government Guidance as updated from 2018.

(a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the specified and non-specified Investment categories;

(b) all specified Investments (Annex B) are defined by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, the Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;

(c) Non-specified investments (Annex B) attract a greater potential of risk. As a result, a maximum local limit of 20% of "core cash" funds available for investment has been set which can be held in aggregate in such investments;

(d) for both specified and non-specified investments, the attached Schedules indicate for each type of investment:-

- the investment category
- minimum credit criteria
- maximum % age of total investments
- maximum maturity period

(e) there are other instruments available as Specified and Non-Specified investments which the Council will NOT currently use. Examples of such investments are:-

Specified Investments	- Commercial Paper - Gilt funds and other Bond Funds - Treasury Bills
Non-Specified Investments	- Sovereign Bond issues - Corporate Bonds - Floating Rate notes - Equities - Open Ended Investment Companies - Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy.

6.5.5 Credit Worthiness Policy – Security of Capital and use of credit ratings

6.5.5.1 This Council applies the creditworthiness service provided by Link Asset Services (Sector). This service employs a sophisticated modelling approach utilising credit ratings from all three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

(a) 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 code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments. The Council will therefore use the counterparties within the following durational bands:

- Yellow 5 years *
- Dark Pink 5 years for enhanced money market funds with a credit score of 1.25
- Light Pink 5 years for enhanced money market 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

* This category has been added for AAA rated Government debt or its equivalent.

6.5.5.2 The Capita 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 one agency ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

6.5.5.3 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating 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.

6.5.5.4 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its 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 with drawn immediately;
- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the lending list.

6.5.5.5 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Country Limits

6.5.5.6 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment Strategy to be followed with cash flow derived balances

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

6.5.5.8 **Investment returns expectations.**
The Bank rate increased to 0.75% in August and underpins investment returns. Investment returns are expected to rise gently over the next 3 years.

The Council will, therefore, avoid locking into long term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a 'low risk' parameter. No trigger rates will be set for longer term deposits (two or three years) but this position will be kept under constant review and discussed with the Treasury Management Advisor on a regular basis

6.5.5.9 **Investment Treasury Indicator and limit**
Total principal funds invested for greater than 365 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.

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested > 365 days			
	2019/20	**2020/21**	**2021/22**
Principal sums invested > 365 days	£3.0m	£3.0m	£3.0m

6.5.5.10 For its cash flow generated balances, the Council will seek to utilise its notice accounts, money market funds and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of Year Investment Report

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

Scheme of Delegation

6.5.5.12 Please see Annex D.

Role of the section 151 officer

6.5.5.13 Please see Annex E.

6.6 **CAPITAL STRATEGY**
The Prudential Code 2017 introduced a new requirement for local authorities to produce and annual capital strategy. Please refer to Annex F.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial
The results of the investment strategy affect the funding of the Capital Programme.

b) Legal
There are no legal implications regarding this report.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no legal implications regarding this report.

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Background Papers:
None

Background Papers are available for inspection at: None