Appendix A

SOLIHULL METROPOLITAN BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY 2019/20 – 2021/22

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1 Introduction

1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A key objective 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, which allow adequate liquidity initially before considering investment return.

1.1.2 The treasury management service is also involved in funding the Council's capital programme. The Corporate Capital Strategy provides a guide to the borrowing needs of the Council and the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer term cash may involve arranging long or short-term loans, or utilising longer term cashflow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.3 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."

1.2 Reporting requirements

Corporate Capital Strategy 2019/20 – 2021/22

1.2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes required 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

1.2.2 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.

1.2.3 The Corporate Capital Strategy is reported to Full Council to ensure that all elected members fully understand the capital programme and how it is managed, including the governance procedures and risk appetite the strategy represents.

1.2.4 The Corporate Capital Strategy details capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.2.5 The Corporate Capital Strategy includes the Council's minimum revenue provision (MRP policy) and key prudential indicators relating to the cost and affordability of the Council's capital plans which were previously reported as part of the Treasury Management Strategy. There are strong links between the two strategies, as the Council's approach to treasury management, which represents a key influence on the capital programme, is a critical component of its capital planning.

Treasury Management Strategy 2019/20 – 2021/22

1.2.6 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 Audit Committee.

1.2.7 A Treasury Management Strategy (this report) – This will provide members with an outline of how investments and borrowings are to be organised in coming years, including an Invesment Strategy and relevant indicators.

1.2.8 A Mid-Year Treasury Management Report – This will update members with the current capital position, amend indicators as necessary, and state whether the treasury operations are meeting the strategy or whether any policies require revision.

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

1.2.10 The Treasury Management Strategy covers the following areas:

- the current treasury position and borrowing structure;
- debt and investment projections;
- limits to borrowing activity;
- prospects for interest rates;
- the borrowing and debt strategy;
- limits on treasury management activity;
- investment strategy;
- investment counterparty selection;
- treasury performance indicators;
- scheme of delegations;
- policy on use of external service providers;
- member and officer training;
- use of brokers;
- car loan scheme.

1.2.11 The Council's capital expenditure plans, minimum revenue provision (MRP) policy, and associated prudential indicators which had previously been reported as part of the Treasury Management Strategy are now reported as part of the Council's Corporate Capital Strategy.

1.2.12 The elements covered within the Treasury Management and Corporate Capital Strategy meet the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the Ministry for Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

1.3 Capital Programme 2018/19 - 2021/22

1.3.1 The Council's capital programme, which is approved through the Council's Corporate Capital Strategy, is a key driver of treasury management activity. Approved expenditure which is not financed through other means must be met via borrowing activity and must be considered within the Council's treasury and prudential indicators. The capital programme is summarised below.

	2018/19 Latest £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Non-HRA	37.590	56.384	47.090	67.000
HRA	17.556	16.066	16.707	14.041
Total	**55.146**	**72.450**	**63.797**	**81.041**
Financed by:				
Capital receipts	8.733	3.081	-	-
Capital grants	14.504	37.203	30.294	31.456
Contributions	5.715	3.090	11.139	29.924
Revenue	16.442	14.201	15.094	15.261
Net financing need for the year	**9.752**	**14.875**	**7.270**	**4.400**

2 Treasury Management Overview

2.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

2.2 Current Treasury Position and Borrowing Structure

2.2.1 The Council's current treasury position is highlighted in the following table.

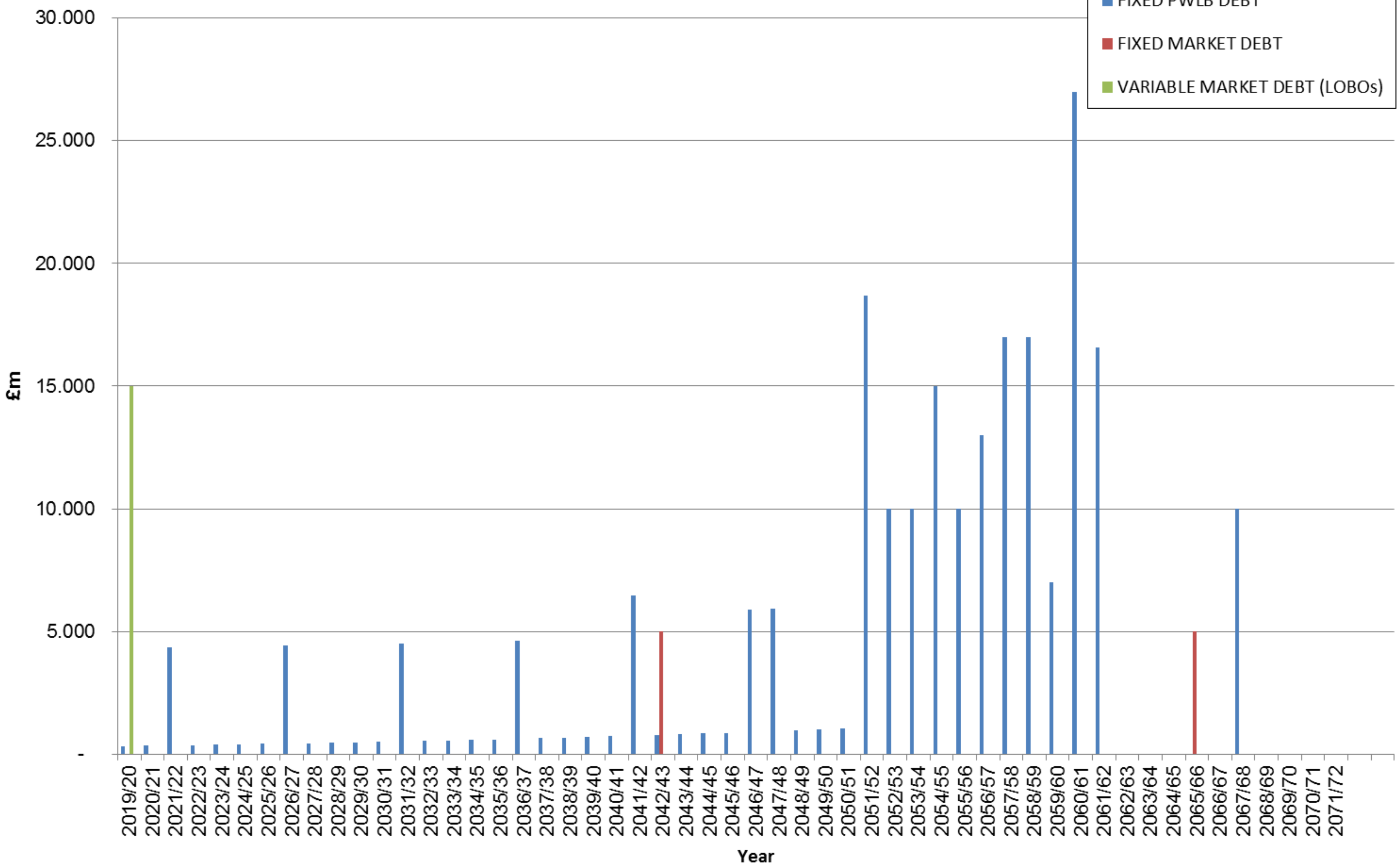
	31/3/2018 (2017/18) Actual £m	Actual Rate 2017/18 %	31/3/2019 (2018/19) Estimate £m	Latest Forecast Rate 2018/19 %
External Borrowing				
Fixed Rate - PWLB[1]	213.538	4.203%	223.210	4.131%
Fixed Rate - Market	20.000	4.261%	10.000	4.423%
Variable Rate - Market	15.000	4.658%	15.000	4.658%
Total Borrowing	**248.538**	**4.236%**	**248.210**	**4.174%**
Investments				
Banks	(1.836)		(3.000)	
Local Authorities	(30.000)		(40.000)	
Money Market Funds	(3.000)		(8.000)	
Total Investments	**(34.836)**	**0.363%**	**(51.000)**	**0.700%**
Net Borrowing	**213.702**		**197.210**	

2.2.2 In addition, the Council is responsible for its proportion of the former West Midlands County Council (WMCC) debt that is repayable by a 10% sinking fund over 40 years (7 years still outstanding) and the interest rate is set each year by Dudley MBC based on the average cost of borrowing in the year. The estimated debt outstanding at 31 March 2019 will be £6.743 million and the average rate of interest for 2019/20 is estimated at 5.698%.

2.2.3 The maturity structure of the Public Works Loan Board (PWLB) and market debt is as shown in table overleaf. This illustrates that the Council has deliberately borrowed not only at favourable rates at the times required, but has spread the impact of the maturity over several financial years, to minimise refinancing problems at a later date.

[1] PWLB: Public Works Loan Board, a branch of the Debt Management Office that lends funds to Local Government.

Debt Maturity Profile Table



2.3 Debt Projections 2019/20 – 2021/22

2.3.1 The Council's treasury portfolio position at 31st March 2018, with forward projections, is summarised below. The table shows the actual external debt against the underlying capital borrowing need, the Capital Financing Requirement (CFR), highlighting any 'under' or 'over-borrowing'.

	2017/18 Outturn £m	2018/19 Latest £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
External Debt					
Debt at 1 April	238.865	248.538	248.210	247.869	247.515
Expected change in debt	15.339	10.444	14.534	6.916	4.033
New internal borrowing	(5.666)	(10.772)	(14.875)	(7.270)	(4.400)
Debt at 31 March	248.538	248.210	247.869	247.515	247.148
Other long-term liabilities (OLTL)	73.985	67.480	64.425	61.158	57.281
Expected change in OLTL	(6.505)	(3.055)	(3.267)	(3.877)	(4.287)
OLTL at 31 March	67.480	64.425	61.158	57.281	52.994
Gross Debt at 31 March	**316.018**	**312.635**	**309.027**	**304.796**	**300.142**
Capital Financing Requirement	**407.302**	**408.432**	**413.032**	**408.605**	**401.418**
Under / (over) borrowing	**91.284**	**95.797**	**104.005**	**103.809**	**101.276**

2.3.2 It is currently assumed that all new borrowing requirement in future years will be met via internal borrowing, however each borrowing decision will be reviewed as funding is required. If internal funding is unavailable or external borrowing is deemed to be the most prudent then external borrowing may substitute the use of internal borrowing. This would then reduce the under borrowing position in future years.

2.3.3 The prudential indicators set within the Corporate Capital Strategy include 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 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

2.3.4 The Director of Resources and Deputy Chief Executive reports that the Council has complied with this prudential indicator in the current year and that he does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

2.3.5 The CFR in each year includes the PFI/PPP schemes, finance leases and transferred debt (including former WMCC debt administered by Dudley Council) which are not classified as borrowing, but are included within 'other long term liabilities'.

3 Treasury and Prudential Indicators: Limits to Borrowing Activity

3.1 **The Operational Boundary -** This is the level beyond which external borrowing 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 borrowing.

	2017/18 Outturn £m	2018/19 Latest £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing at 1st April	238.865	248.538	248.210	247.869	247.515
Other long-term liabilities (PFI/PPP etc.)	73.985	67.480	64.425	61.158	57.281
Expected change in debt + other long-term liabilities	3.168	(3.383)	(3.608)	(4.231)	(4.654)
Total	316.018	312.635	309.027	304.796	300.142
Operational Boundary	**370.000**	**360.000**	**350.000**	**340.000**	**340.000**

3.2 **The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This is the limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. Given the current level of underborrowing within the Council, the proposed Authorised Limit is the same as the CFR within each year of the Treasury Management Strategy.

3.2.1 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 no such control has yet been exercised.

3.2.2 The Council is asked to approve the following Authorised Limit:

	2017/18 Outturn £m	2018/19 Latest £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Maximum Allowable Borrowing 31 March	339.822	344.007	351.874	351.324	348.424
Other long-term liabilities (PFI/PPP etc.)	67.480	64.425	61.158	57.281	52.994
Authorised Limit	**407.302**	**408.432**	**413.032**	**408.605**	**401.418**

3.3 Separately, through the HRA self-financing regime, the Council is required to set a separate CFR and borrowing limit for its HRA. Historically this was based on a Government imposed HRA debt cap (this was set at £179.761 million for the Council); however this cap was removed by Government in October 2018. The revised limit is based on current HRA plans, however any new scheme must be approved separately by members before borrowing can be undertaken.

	2017/18 Outturn £m	2018/19 Latest £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
HRA CFR	172.895	173.870	175.460	178.651	178.022
HRA Debt Limit	179.761	185.000	190.000	190.000	190.000

4 Prospects for Interest Rates (Source – Link Asset Services November 2018)

4.1 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. The following table gives the Link Asset Services central view.

%	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
Current	0.75	0.75	1.00	1.80	2.80	2.60
Mar-19	0.75	0.90	1.20	2.10	2.90	2.70
Jun-19	1.00	1.00	1.30	2.20	3.00	2.80
Sep-19	1.00	1.10	1.40	2.20	3.00	2.90
Dec-19	1.00	1.20	1.50	2.30	3.10	2.90
Mar-20	1.25	1.30	1.60	2.30	3.10	3.00
Jun-20	1.25	1.40	1.70	2.40	3.20	3.10
Sep-20	1.25	1.50	1.80	2.50	3.30	3.10
Dec-20	1.50	1.50	1.90	2.50	3.30	3.20
Mar-21	1.50	1.60	2.00	2.60	3.40	3.20
Jun-21	1.75	1.70	2.10	2.60	3.50	3.30
Sep-21	1.75	1.80	2.20	2.70	3.50	3.30
Dec-21	1.75	1.90	2.30	2.80	3.60	3.40
Mar-22	2.00	2.00	2.40	2.80	3.60	3.40

4.1.1 The Financial Year 2018/19 started with a generally positive flow of economic statistics which led to the Monetary Policy Committee (MPC), on the 2nd August 2018 to make the first increase in the Bank Rate above 0.5% since the financial crash in 2008, raising the rate from 0.5% to 0.75%. Growth has generally been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November 2018 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. The next increase in the Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

4.1.2 The overall longer term future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently.

4.1.3 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 and emerging market developments. Such volatility could occur at any time during the forecast period.

4.1.4 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.

4.2 **Investment and Borrowing Rates**

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

4.2.2 Borrowing interest rates have been volatile so far during 2018/19 and have increased modestly since the summer. It is anticipated, subject to a reasonable Brexit agreement being found, that rates will increase gradually over the next few years.

4.2.3 The Council’s policy of avoiding new borrowing by running down spare cash balances has been an effective strategy to date, however, this needs to be carefully reviewed to avoid incurring higher borrowing costs at a later date, when authorities will be unable to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

4.2.4 There will remain a cost of carry to any new long term borrowing as investment rates continue to be lower than borrowing rates.

5 Borrowing and Debt Strategy 2019/20-2021/22

5.1 The Council is currently maintaining an underborrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cashflow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high. It also avoids the Council incurring a cost on the differential between borrowing costs and investment rates.

5.2 Against this background and the risks within the economic forecast, and the potential for a borrowing rate increase, caution will be adopted with the 2019/20 treasury operations.

5.3 The Director of Resources and Deputy Chief Executive will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported at the next available opportunity.

5.4 The Director of Resources and Deputy Chief Executive, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above whilst considering future funding requirements. This may include borrowing in advance of future year's requirements.

5.5 The Council's policy on borrowing in advance of need is that it 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.

5.6 Risks associated with any advance borrowing activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

5.7 The appropriate form of borrowing referred to in 5.4 considers both PWLB variable and fixed rate debt and the use of market instruments. At present non PWLB debt accounts for approximately 7.3% of the Capital Financing Requirement, excluding other long-term liabilities and the former WMCC debt administered by Dudley MBC.

5.8 It is anticipated that the borrowing outstanding at 1st April 2019 will be £248.210 million. The total Council borrowing includes £15m of variable market debt (6.0% of total debt, 4.4% of the ultimate long-term borrowing requirement), and £10m of fixed rate market debt (4.0% of total debt, 2.9% of the ultimate long-term borrowing requirement).

5.9 In addition to the above sources of funding, the Municipal Bond Agency, which was established in recent years, could be offering loans to local authorities in the near future. Borrowing rates could be lower than those offered by the Public Works Loan Board (PWLB). Consideration will be given in regard of this option as required.

Debt Rescheduling

5.10 As short-term borrowing rates are likely to be 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 light of the current treasury position and the cost of debt repayment premiums incurred.

5.11 During 2018/19 Council officers successfully rescheduled £10 million of variable market debt, which was replaced with a fixed term PWLB debt. This will save the Council £2.428 million over the remaining 42 years of the debt; it also removes the risk involved with the variable element of the previous debt. No other rescheduling or new borrowing has taken place during 2018/19.

5.12 The Director of Resources and Deputy Chief Executive and the Council's treasury consultants will monitor prevailing rates for any further rescheduling opportunities in the future.

5.13 Any rescheduling will be in accordance with the strategy position outlined above. The reasons any rescheduling might take place could include:

- to generate cash savings and/or discounted cash flow savings,
- to help fulfil the treasury strategy,
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.14 The Council has £4 million of PWLB debt due to mature in 2021/22. It is anticipated that this debt will be refinanced at a lower rate in order to generate annual interest savings. These savings have been factored into the Treasury Management savings proposals.

5.15 All rescheduling will be reported to the Audit Committee at the earliest meeting following its action.

Budgetary Impact of Borrowing Decisions

5.16 The current base budget and forecast for 2018/19 to 2021/22 identifies further additions to the Treasury Management budget which are incorporated in the three year plan and shown below. These figures exclude the savings identified for Treasury Management in the Medium Term Financial Strategy:

Treasury Management Base Budget Forecast Additions	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Prudential Borrowing to fund ICT and Corporate Capital Programme	0.520	0.748	0.460	0.445
Prudential Borrowing for other projects	0.285	0.378	0.031	0.130
Total	**0.805**	**1.126**	**0.491**	**0.575**

5.17 The overall cost outlined in the above table will require a base revenue budget allocation of £1.126m in 2019/20 which has been reflected in the budgets proposed for the year.

5.18 The budget process includes bids for projects requiring prudential borrowing such as ICT and agile working projects. To the extent that the revenue consequences of borrowing are approved by Full Cabinet, the Treasury Management budget will be increased to enable the borrowing to be undertaken.

5.19 In summary, the estimated borrowing requirement in 2019/20 is:

	£m
Prudential Borrowing (Non HRA)	12.175
Less – Provision for loan repayment (MRP)	(5.867)
Borrowing requirement (excluding other long term liabilities)	6.308

5.20 In addition to the borrowing requirement outlined above, £2.700 million of borrowing is anticipated for the Housing Revenue Account for 2019/20.

6. Treasury Management Limits on Activity

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

- Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rate borrowing based upon the expected net debt position.
- Upper limits on fixed 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.

6.2 **The Council is asked to approve the following limits:**

	2019/20	2020/21	2021/22
Interest rate exposures	Upper £m	Upper £m	Upper £m
Limits on fixed interest rates (net debt)	351.874	351.324	348.424
Limits on variable interest rates (net debt)	105.562	105.397	104.527
Local Indicator – Variable debt not to exceed 30% of total debt			
Maturity Structure of fixed interest rate borrowing			
All years		Lower	Upper
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	50%
5 years to 10 years		0%	50%
10 years to 20 years		0%	60%
20 years to 30 years		0%	60%
30 years to 40 years		0%	80%
40 years to 50 years		0%	80%
50 years and above		0%	80%

7 Investment Strategy 2019/20-2021/22

7.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Councils Capital and Property Investment Strategies.

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

7.3 In accordance with the above guidance from MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus the avoidance of concentration risk.

7.4 It is recognised that ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to monitor market pricing of credit default swaps[2] and overlay that information on top of the credit ratings.

7.5 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.

7.6 The key objectives of the Council's investment strategy are primarily to safeguard the repayment of the principal and interest on its investments on time and secondly to ensure adequate liquidity. Investment return is the tertiary objective.

7.7 Investment risk benchmarks are simple guides to the maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

[2] Credit default swap: this is a form of 'insurance' taken out by investors to protect themselves if a borrower fails to make repayments when they fall due.

7.8 Ratings agencies provide details of historic defaults by financial institutions. The historic default tables are shown below, and indicate the average risk of default for each type of institution. Highlighted figures indicate those institutions with a rating and investment period that would meet the Council's investment criteria. The subsequent table indicates the maximum expected risk that the Council would likely to be exposed to for each investment duration. The highlighted sections indicate the acceptable investment periods within this Strategy for each type of credit rating. It should be noted that these benchmarks are an indication of average default, and would not constitute an expectation of loss against a particular investment.

	Length of Investment (Years)	
Rating Type	1	2
AAA	0.000%	0.030%
AA	0.020%	0.040%
A	0.050%	0.150%
BBB	0.160%	0.440%
BB	0.740%	2.080%
B	3.030%	7.200%
CCC	19.620%	27.530%

	1 year	2 years
Maximum	0.050%	0.040%

7.9 Security: The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.050% historic risk of default when compared to the whole portfolio. Note this benchmark is an average risk default measure and would not constitute an expectation of loss against a particular investment.

7.10 Liquidity – In respect of this area the Council seeks to maintain:

- Adequate liquid short term deposits available with a week's notice.
- Weighted Average Life (WAL, average life of all investments held by the Council) benchmark is expected to be 0.25 years, with a maximum WAL of 0.50 years.

7.11 Yield - Local measures of yield benchmarks are:

- Investments – Returns above the annual average SONIA rate (Sterling Overnight Interbank Average rate). SONIA is the weighted average deposit rate for overnight trades of counterparties with very high creditworthiness.

7.12 In 2018/19, the interest rate strategy approved the target interest rate required on investments at 0.50%. However due to the earlier than anticipated bank rate increase in August 2018; this target was increased to 0.65%. It is currently anticipated that the Council will achieve an average rate of 0.70% for 2018/19. The additional return represents approximately £30,000 additional income for the Council, this increase has been factored into the treasury management savings proposals for future years.

7.13 For 2019/20, the target rate for the investment return is 0.90% for the Council's investments. This rate takes account of the current forecast interest rates and an expected period of uncertainty while the UK negotiates its exit from the European Union. The risk that interest rates do not remain at the level predicted is acknowledged and will be monitored throughout the year and any significant variance to the estimate reported.

8 Investment Counterparty Selection Criteria

8.1 The main principle governing the Council's investment criteria is the security and liquidity of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure:

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

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

8.2 Credit rating information is supplied by the Council's treasury consultants (Link Asset Services) on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

8.3 The criteria for providing a pool of high quality investment counterparties is:

- Banks **–** Good credit quality**.** The Council will only use banks which are

i. UK banks; and/or

ii. Non-UK and domiciled in a country which has a minimum Sovereign rating of AAA

and have, as a minimum, the following credit ratings:

	Rating Agency		
	Fitch	Moody's	Standard & Poor's
Long-Term	A-	A3	A-
Short-Term	F1	P1	A1

- The Council’s own banker (currently Barclays) – for transactional purposes if the Council’s bank falls below the criteria detailed above, balances will be restricted to no more than £4 million, and invested on an overnight basis only. Otherwise, the same criteria will apply as those to other banks.

- Bank subsidiary and treasury operations – the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. Where a bank has a group structure, limits set will relate to the group in its entirety rather than separately to the individual institutions within it.

- Building Societies – the Council will continue to consider all societies that meet the ratings for banks outlined above.

- Money Market Funds (CNAV and LVNAV) – AAA (rated AAA by at least two credit rating agencies).

- Local authorities (including police and fire authorities) – Excluding those who have issued a Section 114 notice.

- UK Government (including gilts, Treasury Bills and the Debt Management Office).

- Supranational institutions. These are multilateral banks (i.e. European Investment Bank).

8.4 **Housing Revenue Account (HRA) Self-Financing** – Following the introduction of the HRA Self-Financing regime in April 2012 local authorities are required to recharge the interest on balances between the HRA and General Fund. This is due to differences between the HRA borrowing and the HRA CFR (underlying need to borrow). Interest on the unfunded or overfunded element will be charged at the average rate of debt. Given the expected cashflow this will be broadly neutral to both the General Fund and HRA over time.

8.5 **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council’s investments. In addition to an acceptable bank and sovereign rating:

- no more than £3m per non-UK country will be invested at any time;
- limits in place above will apply to group companies;
- limits will be monitored regularly for appropriateness.

8.6 Additional requirements under the Code of Practice require the Council to use supplementary information in addition to credit ratings. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed list. This additional market information (e.g. credit default swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

8.7 The time and monetary limits for institutions on the Council's counterparty list are as follows:

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
	Minimum acceptable criteria				
UK Banks	F1/AA-	P1/Aa3	A1/AA-	£8m	2 yrs
	F1/A-	P1/A3	A-1/A-	£6m	1 yr
Foreign Banks (AAA sovereign rating)	F1/A-	P1/A3	A-1/A-	£3m	1 yr
Building Societies	F1/A-	P1/A3	A-1/A-	£4m	9 Months
Money Market Funds (CNAV & LVAV)	AAAmmf	Aaa-mf	AAAm	£8m	Variable
Treasury Bills & Gilts, Debt Management Office	F1+/AA	N/A /Aa1	A1+/AA	Unlimited	Variable
Local Authorities	-	-	-	£10m	2 yrs

8.8 All limits are per institution, except for foreign banks, where the limit is per AAA-rated sovereign nation.

8.9 On occasions the Council may consider investment opportunities, which are in line with the Council's plans and objectives but which do not meet the criteria outlined above. Where this is the case prior consideration must be given to the criteria outlined above, and approval sought from the Director of Resources and Deputy Chief Executive and Full Council. Where these investments take place they will be reported to Audit Committee at the earliest meeting following their completion.

8.10 **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 repayment 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 £m	2020/21 £m	2021/22 £m
Principal sums invested > 365 days	15	15	15

8.11 **Economic Investment Considerations** – It is expected that the Bank Rate will rise at a gradual rate over the coming years The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and adviser's own forecasts.

8.12 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under exceptional current market conditions the Director of Resources and Deputy Chief Executive may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

8.13 **Property Investment Strategy -** The Council is currently considering a number of commercial acquisition opportunities in line with the Property Investment Strategy approved by Full Cabinet in November 2017. This may result in investment in operational or investment assets. The purpose of the Strategy is to ensure the investment is carried out in accordance with an approved process and complies with published guidance on local government capital, treasury management and investments.

8.14 The Strategy is predominately concerned with direct property investment but also allows the Council to invest in property funds or to take on the role of property development, either on its own or with a development partner. Preference will be given to investments of economic or social benefit to the borough.

8.15 The Strategy proposes that once a potential investment is identified, detailed due diligence will take place and the investment will be 'scored' against the scoring matrix. The proposal will be reviewed by an Investment Board. If the Investment Board thinks that the investment should be pursued, they will present a report to Full Cabinet for consideration.

9 Treasury Management Scheme of Delegations

9.1 The following outlines the key responsibilities relating to treasury management:

Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual and mid-year strategy;
- full powers in relation to all borrowing and investment matters.

Audit Committee

- receiving and reviewing reports on treasury management policies, practices and activities and making recommendations to Full Council;
- approval of/amendments to the authority's adopted clauses, treasury management strategy statement and treasury management practices;
- receiving periodic monitoring reports and an annual outturn report;
- budget consideration and approval;
- approval of the division of responsibilities;

- approval of the selection of external service providers and agreeing terms of appointment.

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and on-going risk management of all non-financial investments and long term liabilities;
- provision of information to members on all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

The Treasury Accountant

- execution of transactions;
- adherence to agreed policies and practices on a day to day basis;
- maintaining relationships with counterparties and external service providers;
- supervising treasury management staff;
- monitoring performance on a day to day basis;
- submitting management information reports to the responsible officer
- identifying and recommending opportunities for improved practices.

10 Policy on the use of External Service Providers

10.1 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service from the three main credit rating agencies.

10.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

10.3 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.

11 Member and Officer Training

11.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The Council has addressed this important issue by providing annual training, delivered by Link Asset Services, to all members of Audit Committee in addition to ad hoc member seminars as required.

11.2 The training requirements of members and treasury management officers are regularly reviewed.

12 Use of Brokers

12.1 The Council uses a number of brokers on a regular basis, as well as dealing directly with leading institutions. Wherever possible, the Council tends to spread its business amongst them but it must be emphasised that this will not always be possible.

12.2 Brokers currently being used are:-

- BGC Brokers
- ICAP
- King & Shaxson
- RP Martins
- Tradition
- Tullet Prebon

12.3 The limited function performed by brokers is acknowledged, however, the Council would expect to be informed if a broker had any doubts about an organisation we were dealing with.

13 Car Loan Scheme

13.1 The Council offers a car loan scheme to essential and approved casual users. The scheme is intended to offer competitive, but not subsidised, rates to members of staff who require a car for work.

13.2 The flat rate at present is 1.21% which equates to an APR of 2.34%.

13.3 The rate is reviewed annually as part of the Treasury Management Strategy and agreed based on annuity rate offered by the Public Works Loans Board (PWLB). The five year rate issued in PWLB notice 463/18 was 1.71% which would result in a car loan rate of 2.71%. The car loan scheme operates on a flat rate calculation that equates to 1.46% in order to achieve a 2.71% APR.

13.4 For illustration, the monthly payment (interest and principal) on a £5,000 5 year loan would increase to £365.30 compared to the current £302.80.

13.5 It is recommended that the scheme rate be amended to a flat rate of 1.46% (2.71% APR) to reflect the Council's current costs of borrowing.