TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20, ANNUAL REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY

1. BACKGROUND

1.1 The Local Government Act 2003 (the Act) and the associated CIPFA Prudential Code require the Council to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The Strategy for 2019/20 covers: -

- the current treasury position;
- prospects for interest rates;
- borrowing requirements and strategy;
- Annual Revenue Provision policy statement;
- the investment strategy;
- the extent of debt rescheduling opportunities; and
- treasury management limits and prudential indicators for the period 2018/19 to 2021/22.

1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

(i) increases in interest charges caused by increased borrowing to finance additional capital expenditure; and

(ii) any increases in running costs from new capital projects

are limited to a level, which is affordable within the projected income of the Council for the foreseeable future.

1.5 The Council uses Link Asset Services 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 service providers.

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.

1.6 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare an additional report, a Capital Strategy, which is intended to provide the following: -

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

The aim of the report is to ensure that all Council Members fully understand the overall strategy, governance arrangements, protocols and procedures within which capital decisions will be taken.

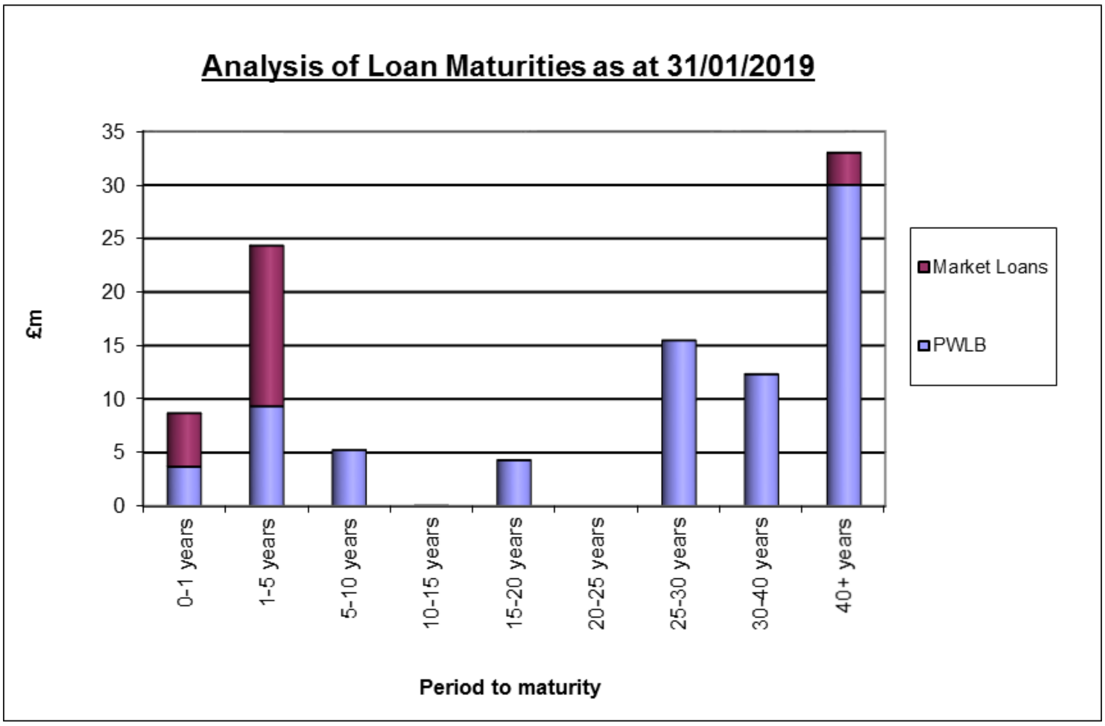
2. CURRENT TREASURY POSITION

Borrowing

2.1 At the time of drafting this report the Council currently has outstanding external borrowing of £103.338m, which is comprised: -

Outstanding Debt at 31/01/2019	**Principal £m**	**Average Rate %**
Public Works Loan Board (PWLB) Debt	80.338	5.642
Market Debt	23.000	4.162
Total Debt	103.338	5.313

2.2 £20 million of the market debt in the table above is held in the form of LOBO loans where there are certain options on the part of both the borrower (St. Helens Council) and the lender at specified points in the loans' existence. The profile of the Council's borrowing (both market and PWLB) is detailed in the following chart:



In accordance with the Prudential Code, the maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender does have the right to increase the interest rate payable (as is the case with a LOBO loan), then this should be treated as a right to require payment. In accordance with this guidance, the maturity dates of the Council's LOBO loans have been taken as the next call date for each loan. In the current interest rate climate, it is unlikely that these loans will be called imminently.

2.3 The Council's current external debt position (together with forward projections) is detailed below. The table below shows total external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting the under borrowing when compared to the underlying need.

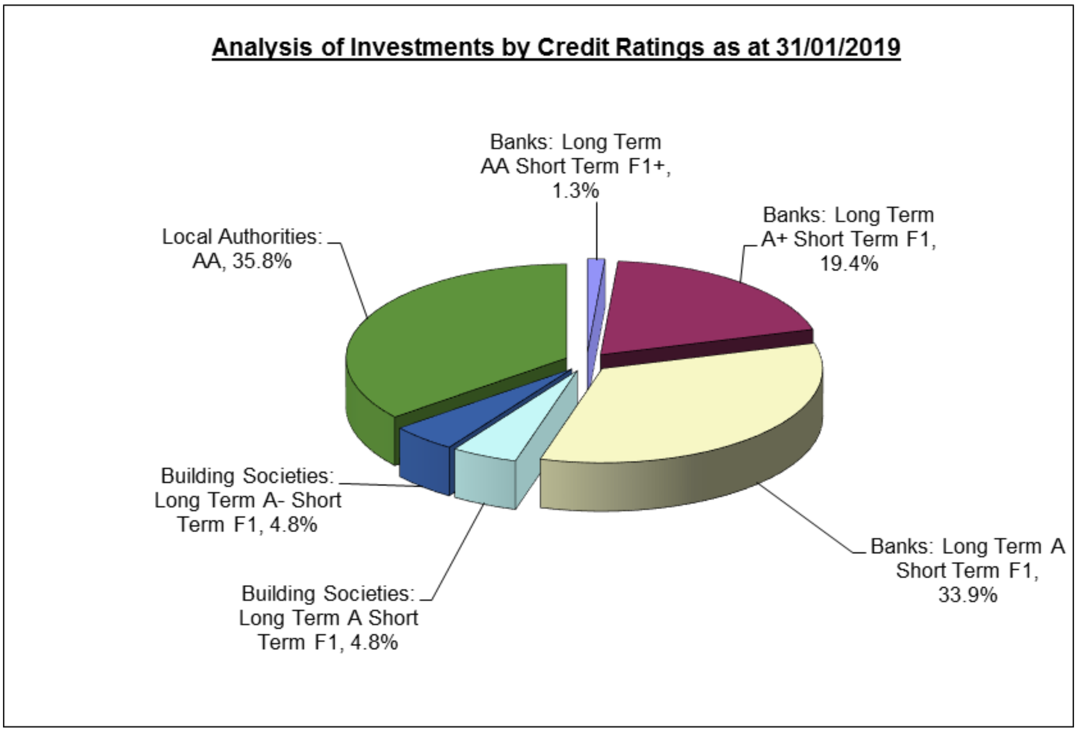
External Debt	**2018/19 Actual £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Debt as at 1 April	103.344	103.336	99.666	96.562
Forecast Change in Debt	(0.008)	(3.670)	(3.104)	(3.105)
Other Long Term Liabilities (OLTL)	23.894	23.386	22.733	22.089
Expected Change in OLTL	(0.508)	(0.653)	(0.644)	(0.629)
Actual Gross Debt as at 31 March	**126.722**	**122.399**	**118.651**	**114.917**
Capital Financing Requirement	178.720	190.942	188.221	185.082
(Under) / Over Borrowing	**(51.998)**	**(68.543)**	**(69.570)**	**(70.165)**

2.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates 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. As is detailed by the table above the Council's actual gross debt is significantly lower than its CFR over the period. The variance reflects previous strategy decisions to use available resources to negate the need to incur additional borrowing.

2.5 The Strategy adopted in previous years has proved to be largely successful. However, this flexibility within the Treasury Management Strategy is contingent on the utilisation of capital receipts and other reserves to fund capital activity. If risks identified within the Council's financial strategy arise or the availability of internal resources to fund the capital programme diminishes, then the Council would have the capacity to undertake additional external borrowing to fund such eventualities or simply address the underlying difference between the CFR and its actual borrowings.

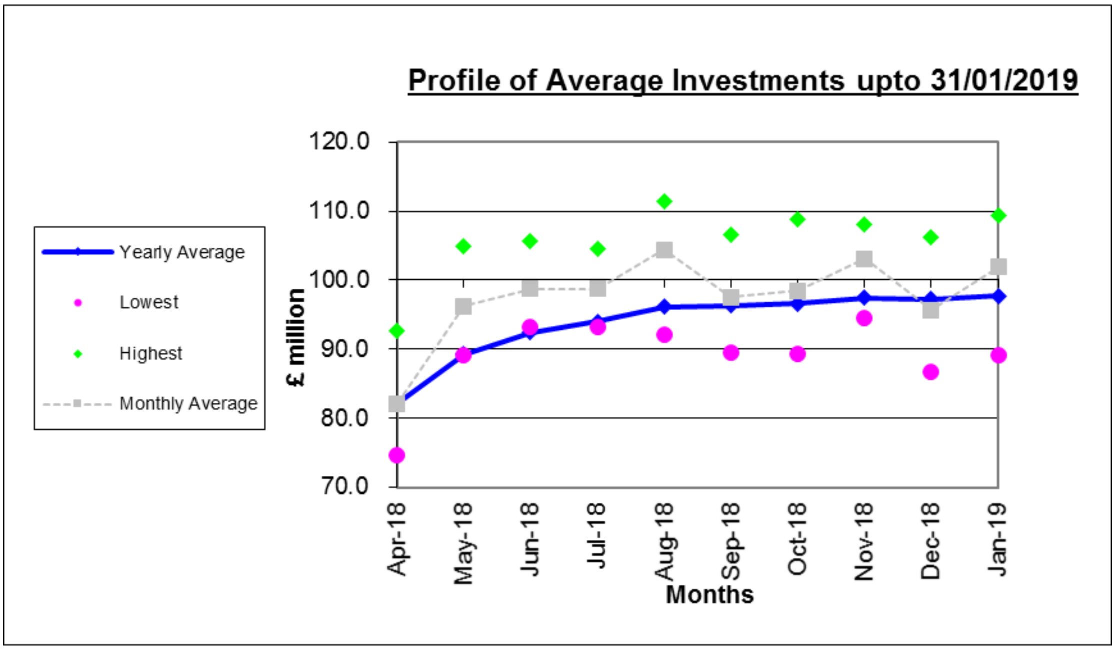
Investments

2.6 At the time of drafting this report the Council has investments of £103.315m in a range of institutions as follows:-



These investments include (circa. £7.5m) funds held on behalf of Schools.

2.7 Dependent on the timing of the Council's cash flows, this level of investments will rise or fall. The average daily sum invested thus far during 2018/19 is around £97.718m and this level of investments is key to the consequential borrowing considerations as detailed in Paragraphs 2.1 to 2.5. The profile of average investment levels thus far is as detailed over: -



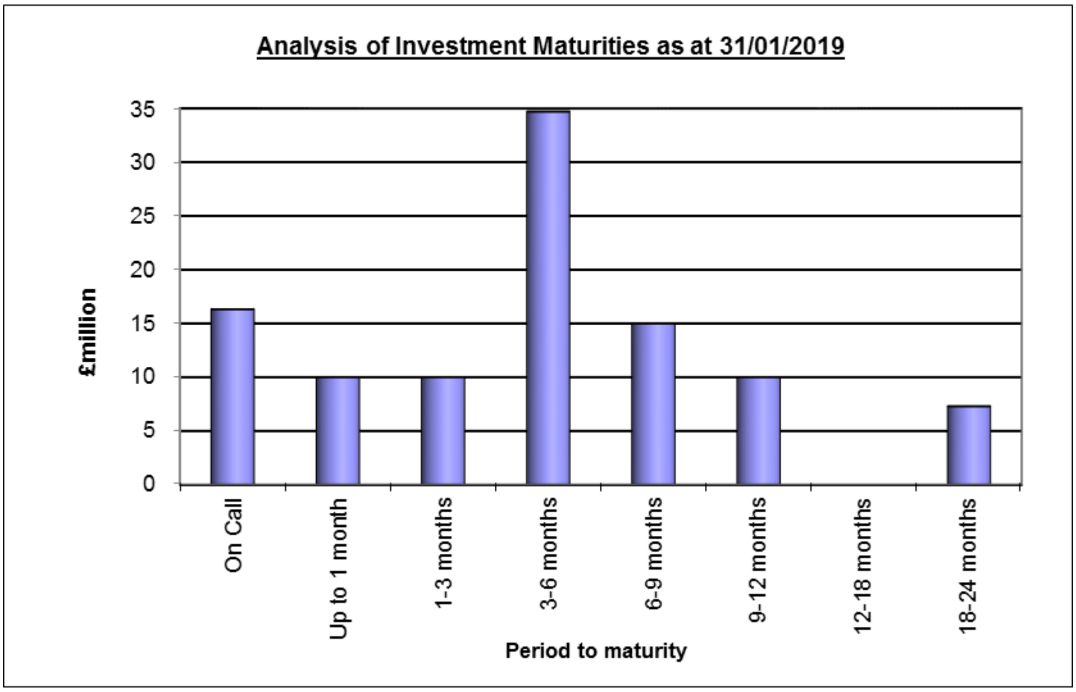
2.8 Levels of investments forecast as at 31 March 2019 are likely to be higher than the current balance based on current spending plans, the projected receipt of funds and projected use. It is forecast that the balance of funds available for investment during 2019/20 will be slightly below the levels anticipated at the end of 2018/19. This is a consequence of commitments faced by the Council during the forthcoming financial year.

2.9 Merseyside Recycling and Waste Authority (MRWA), under a Service Level Agreement (SLA), utilise a number of St Helens Council support services. One of those is Treasury Management services; historically, MRWA have had funds which have been invested with the Council's investments. MRWA have now entered into an overdrawn position, which the Council are covering as part of the service provided. This has an impact on the funds available for investment and thereby reduces the level of investment income the Council will receive. However, the SLA provides for the Council to charge MRWA a fee of Bank Rate plus 2% to compensate for the foregone investment interest.

2.10 Like St Helens, MRWA have historically underborrowed against their CFR; their budget policy has been to run down reserves over a number of years which is why they are now overdrawn. MRWA have now gained approval from Members to undertake borrowing to address the overdrawn position and it is anticipated that they will no longer be overdrawn by the year end.

2.11 Reductions in investment interest returns have been forecast by Council Officers for some considerable time. Wherever possible, the Council has sought to utilise longer-term fixed terms deposits to lock into favourable rates of return. These opportunities have, however, been somewhat restricted as security of capital is of paramount importance and, therefore, investment options are limited to a small number of Counterparties.

2.12 The profile of investment maturities at the time of drafting this report is detailed in the following chart: -



3. PROSPECTS FOR INTEREST RATES

3.1 The Council has appointed Link Asset Services as a treasury advisor and part of their service is to assist Officers to formulate a view on interest rates. Annex 1 provides an overview of current City forecasts for both short and longer-term interest rates. As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 August 2018, taking Bank Rate to 0.75% and reiterated previous guidance that they expected to increase Bank Rate at a gradual rate and to a much lower equilibrium rate than before the economic crash; indeed, they gave a figure for this of 2.5% in ten years' time.

3.2 Link believe that rates will remain at 0.75% until the mid-point of 2019 and will then rise by 0.25% in May 2019 and February 2020, reaching 1.25%. However, other forecasters are predicting rates could begin to rise at a faster rate than forecasted by Link and with additional increases over the period. These are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.

3.3 The uncertainty that exists around Brexit has played a major part in MPC policy over the past 2 years and continues to be the major factor causing uncertainty over future changes to Bank Rate. The MPC have warned that the next move in Bank Rate could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation in sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported.

3.4 Economic and interest rate forecasting also 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.

3.5 The current economic outlook, structure of market interest rates and government debt yields, have several key treasury management implications:

- The period of stimulating economic recovery after the financial crisis of 2008 and warding off the threat of deflation, is coming towards a close. A new period of reversing those measures by raising central rates has commenced and the timing of further rates rises is crucial so as not to cause shocks in market expectations that could destabilise financial markets;

- Investment returns are likely to remain low during 2019/20 with a gradual increase in rates over the next couple of years; and

- Borrowing rates have been volatile during the current year with a small increase over the latter part of the year. Forecasts suggest that these will increase over time.

3.6 Over a number of years, the Council has avoided new borrowing by running down available cash balances. This policy has served the Council well. However, there is a longer term risk with this policy in so far as the Council may at some point in the future have an absolute need to borrow at potentially higher rates to finance new capital expenditure, refinance maturing debt or simply close the gap between the Council's actual borrowings and its CFR.

3.7 There will potentially be a cost of carry to any new borrowing undertaken that would increase cash balances at a time when the levels of return available on investment returns are low. However, there may be longer term benefits in that, over the longer term, the external interest payments made by the Council would be lower.

4. BORROWING REQUIREMENT AND STRATEGY

4.1 The Council's 'in year' borrowing requirements for the next, and subsequent two financial years, are based on those requirements arising from the proposed capital programme as included in the Budget report and are calculated as: -

	2019/20 £m	**2020/21 £m**	**2021/22 £m**
Unsupported Borrowing	15.301	1.005	0.700
Revenue Provision	(3.079)	(3.726)	(3.839)
In-Year Capital Financing Requirement	12.222	(2.721)	(3.139)

4.2 These requirements are calculated as: -

(i) that element of the proposed capital programme not financed by specific grant, capital receipts or earmarked balances;

(ii) less the Annual Revenue Provision as calculated by reference to the Capital Finance and Accounting Regulations 2008 (and explained further in section 5).

4.3 As is evident, the in-year Capital Financing Requirement during this three-year period is negative. The Council's current borrowing profile, whereby levels of actual borrowing are below the implied underlying need to borrow, puts the Council in a sound position relative to these reductions.

4.4 The current position is a product of previous strategy decisions to use cash arising from its available reserves and balances to negate the need to borrow. With historically and abnormally low Bank Rates, the avoidance of new external borrowing has reduced costs in the short term and reduced exposure to interest rate and credit risk.

4.5 With a reducing Capital Financing Requirement, there is currently no absolute requirement for the Council to undertake new external borrowing to finance ongoing capital programme activity. However, while actual levels of external borrowing remain significantly below the Capital Financing Requirement there does remain the possibility or absolute need to incur new borrowing to finance historic activity.

4.6 The need to borrow will be influenced by calls on capital receipts and other reserves and balances. As discussed at 3.7, there are potential benefits of borrowing whilst borrowing rates are low as there is a risk that any future borrowing may attract higher rates than are currently available.

4.7 Additional borrowing may be required dependent upon decisions that are made regarding additions to the capital programme, in line with the Capital Strategy and the specified governance arrangements.

4.8 Extreme caution will be adopted with the 2019/20 treasury operations. Officers will continue to monitor prevailing interest rates and market forecasts and will adopt a pragmatic approach to any changing circumstances, with reports submitted on actions taken in line with the reporting requirements of the Council's Treasury Management Practices.

5. ANNUAL REVENUE PROVISION STATEMENT

5.1 Under Regulation 27 of the 2003 Capital Finance Regulations, Local Authorities were required to charge their revenue account for each financial year Minimum Revenue Provision (MRP) to account for the repayment of principal in that financial year. The requirement to make this statutory provision was amended under regulation 28 in the Capital Finance and Accounting Regulations 2008. The current regulation 28 sets out a duty for a Local Authority to make an amount of minimum revenue provision, which it considers to be prudent.

5.2 Under regulation 28, Authorities are provided with a number of alternative approaches, which can be adopted for the purpose of calculating a 'prudent provision'. The approach by an authority should be outlined in a statement and submitted to Council for consideration. The statement below outlines the approach that the Council has adopted to the calculation of its revenue provision. The approach below was initially adopted in 2015/16 and was approved by Council on 13 January 2016, with an amendment for regeneration schemes approved by Council on 17 May 2017. A new treatment relating to Loan Financial Instruments was approved by Council on 28 February 2018.

5.3 The Council will calculate its Annual Revenue Provision (RP) by applying the Asset Life Method, unless the borrowing is for a Loan Financial Investment. Under the guidance there are two approaches which can be applied to calculating the RP charge under the Asset Life Method: the Equal Instalment Approach and the Annuity Approach.

5.4 For all borrowing that was previously supported through the Local Government Financial Settlement and the Council's Private Finance Initiative (PFI) scheme, the Annuity Method will be applied to the calculation of an annual RP charge.

5.5 For borrowing undertaken under the Prudential system to fund schemes of a regeneration and/or infrastructure nature for which there has been/is no Government support, the Council will make a provision using the Annuity Method Approach. The use of this method represents a more prudent and affordable option for the Council for schemes of this nature and has the advantage of linking the revenue charges to the flow of benefits from an asset, where the benefits are expected to increase in later years.

5.6 Where borrowing is undertaken for a Loan Financial Investment, as described in the Ministry of Housing, Communities and Local Government's (MHCLG) Statutory Guidance on Local Government Investments (3rd Edition) but treated as Capital Expenditure in accordance with the Local Government Act 2003, Regulation 25, the Council will not make a Revenue Provision charge. This is predicated on the basis that the Loan will be repayable at some date in the future. This is deemed to be prudent because any risks relating to non-repayment will be quantified and charged, using the "expected credit loss" model, in accordance with IFRS 9 *Financial Instruments,* in the year in which they are identified.

5.7 For all other borrowing undertaken under the Prudential system for which there has been/is no Government support, the Council will make a provision using the Equal Instalment Approach; that is to say the RP charge will be calculated based on the estimated life of the asset for which the borrowing is undertaken.

6. ANNUAL INVESTMENT STRATEGY

6.1 The Council will have regard to the MHCLG Guidance on Local Government Investments and CIPFA's Code of Practice in conducting its investment activity and the overriding priorities are that security and liquidity of funds are of paramount importance.

6.2 In accordance with the above, and in order to minimise the risk to investments, the Council has a clearly stipulated minimum acceptable credit quality of Counterparties for inclusion on the Council’s lending list. The creditworthiness methodology used to create the Counterparty list takes account of the ratings provided by FITCH, one of the three main ratings agencies. All investments made during 2019/20 will be in accordance with the Annual Investment Strategy, which is detailed at Annex 2.

6.3 In keeping with previously approved Treasury Management Strategies, the Council has sought to lock into longer period investments where opportunities and Counterparty Criteria permits, whilst maximum strategic use of its call account facilities has been made during the period for cash flow generated balances and to ensure sufficient liquidity. This practice will continue during 2019/20, subject to: -

(i) the outlook for medium term interest rates (i.e. to avoid locking into deals whilst investment rates are at historically low levels and there is a forecast pick-up in rates over the medium term);

(ii) the management of counterparty risk;

(iii) any opportunities to repay debt using available investments; and

(iv) the Council's liquidity requirements.

6.4 Updated guidance from MHCLG and CIPFA has extended the definition of investments to include non-financial investments which are defined as non-financial assets that organisations hold primarily, or partially, to generate a profit. The strategy in relation to this kind of investment will be covered within the Capital Strategy.

7 DEBT RESCHEDULING

7.1 Debt rescheduling has historically been undertaken in order to: -

(i) generate cash savings at minimum risk;

(ii) amend debt maturity profiles and/or the balance of volatility;

(iii) aid fulfilment of the Council's overall borrowing strategy.

7.2 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely (as short term investments are likely to be lower than rates paid on currently held debt). Due to the existence of higher redemption interest rates on PWLB debt, premiums are highly likely to compromise such opportunity.

7.3 It should be noted that the Prudential Code allows for the funding of premium costs arising from debt rescheduling to be financed by usable capital receipts. This adds another option for consideration in that such transactions could serve to reduce the Council's liabilities arising from its borrowing activity and reduce revenue costs over the longer term.

7.4 Should rescheduling opportunities arise, prudence will be exercised at all times and any actions by Officers will be reported in accordance with the reporting requirements of the Council's Treasury Management Practices.

8. TREASURY LIMITS AND PRUDENTIAL INDICATORS 2018/19 TO 2021/22

8.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting Regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit".

8.2 The Council must have regard to the Prudential Code when setting this limit. The Code also sets a series of other limits and indicators that the Council must consider.

8.3 The proposed limits and indicators required for approval for the period 2018/19 to 2021/22 are contained in Annex 3.

9. CIPFA CODE OF PRACTICE: TREASURY MANAGEMENT IN THE PUBLIC SERVICES (THE CODE)

9.1 The then Executive approved formal adoption of the Code on 20 March 2002 and approval has been reiterated by Council in recent years, most latterly in approving the 2018/19 Treasury Management Strategy.

9.2 All requirements of the Code are implemented through the governance frameworks, policies, systems, procedures and controls in place within the Council and will continue to be so. It is an historic requirement of the Code that the Council should formally adopt the Code and specifically the four Clauses contained at Annex 4 and the Treasury Management Policy Statement at Annex 5.

Annexes

1 Outlook for Interest Rates;

2 Annual Investment Strategy 2019/20;

3 Treasury Limits and Prudential Indicators 2017/18 to 2020/21;

4 Adoption of the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes;

5 Treasury Management Policy Statement.

Annex 1

OUTLOOK FOR INTEREST RATES

The data below shows a variety of forecasts published by a number of institutions. The table below provides individual forecasts including those of Link Asset Services and Capital Economics (an independent forecasting consultancy).

The data shows rates at the time of issue of the forecasts, January 2019. The forecast within the strategy has been drawn from these diverse sources and Officers' own views.

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1 November 2012.

	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.75%	1.75%	2.00%	2.00%					
5 year PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%					
10 year PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%					
25 year PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.56%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%					
50 year PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%					

Annex 2

ANNUAL INVESTMENT STRATEGY 2019/20

1.0 Purpose

1.1 This Strategy is submitted to Council for approval in adherence with the guidance issued by the then ODPM under Section 15(1)(a) of the Local Government Act 2003 and in accordance with the Statutory Guidance on Local Government Investments (3rd Edition), issued in 2018 by the MHCLG.

1.2 It covers the financial period to 31 March 2020 and is complimentary to the Treasury Management Strategy 2019/20 and the adopted Treasury Management Practices as required by the CIPFA Code of Practice: Treasury Management in the Public Services.

1.3 The Council's investment policy has regard to the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code").

1.4 In doing so the Annual Investment Strategy sets out: -

- which investments the Council may use for the prudent management of its surplus funds during the period, under the heads of Specified Investments and Non-Specified Investments;
- the utilisation of Loan Financial Instruments and the governance arrangements that must be followed when decisions are made;
- the procedures for determining the use of each asset class;
- the maximum periods for which funds may be prudently committed in each class;
- the upper limits to be invested in each class;
- the extent to which prior professional advice need be sought from the Council's Treasury Advisors prior to the use of each class; and
- the minimum amount to be held in short-term investments.

2.0 Investment Objectives and Principles

2.1 The general policy objective for the Council is the prudent investment of its surplus funds. The Council's investment priorities are the security of capital and liquidity of investments.

2.2 The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity and having properly assessed all inherent risks, as detailed in its Treasury Management Practices.

2.3 The Council will seek to ensure that temporary borrowing will not be made whilst the Council has investment funds available and its longer-term borrowing activity will have full regard to the content of CIPFA's Prudential Code and the Council's own approved Treasury Strategy. In particular, the Council will not engage in treasury borrowing activity that is solely for the purposes of investment or on lending to make a return.

3.0 Specified, Loans and Non-Specified Investment Types

3.1 Financial investment instruments are broadly classified within government guidance as being Specified, Loans or Non-Specified.

3.2 An investment is a Specified Investment if: -

a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
b) the investment is not a long term investment;
c) the making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146 as amended); and
d) the investment is made with a body or investment scheme which has been awarded a high credit rating by a credit rating agency or is made with the United Kingdom Government, a Local Authority in England or Wales (as defined in Section 23 of the 2003 Act), a Parish or Community Council.

3.3 A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Local authorities can make such loans whilst continuing to have regard to the guidance if they can demonstrate in their Strategy that:

a) Total financial exposure to these type of loans is proportionate;
b) They have used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard 9 *Financial Instruments* as adopted by proper practices to measure the credit risk of the loan portfolio;
c) They have appropriate credit control arrangements to recover overdue repayments in place; and
d) The local authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within the self-assessed limit.

3.4 Non-specified Investments are those investments not meeting the definition of a specified investment or a loan and, inherently, are subject to greater degrees of treasury risk. They do, however, offer some potential diversification as part of an overall strategy, and as a result, a small number are identified as being potentially suitable for use, subsequent to prior consultation and advice from the Council's appointed Treasury Management Advisors.

3.5 In assessing the relative characteristics of each possible instrument type, the risk attached in their use and how their use would assist in the delivery/achievement of the Council's investment objectives and principles, Annex A has been prepared to detail those instruments that Officers propose may be used as part of the investment strategy. The utilisation of Loan Financial Instruments have additional restrictions placed upon them and the detail of the decision making process for their use is set out in Section 9.

4.0 <u>Credit and Counterparty Policies</u>

4.1 The Council relies on credit ratings published by FITCH, an independent rating agency, to establish the credit quality of Counterparties (issuers and issues) and investment schemes. Credit rating lists are reviewed on an ongoing basis to ensure prompt action to remove institutions whose ratings fall below the Council’s threshold. The policy is fully documented in the Council's Treasury Management Practices.

4.2 Delegation has been granted to the Strategic Director of Corporate Services in relation to the criteria by which the Council's lending list is compiled for its internally managed investments. The criteria proposed for adoption during 2019/20 is contained at Annex B.

4.3 The criteria proposed is unchanged from the previously approved iteration.

5.0 <u>Liquidity of Investments</u>

5.1 The need to ensure liquidity by the continuous management and monitoring of the Council's cash transactions and resource is one of the key objectives of the Treasury function and liquidity risk management is fully considered and documented in the Council's Treasury Management Practices.

5.2 The limits included in Annex A are a reflection of the overriding importance of liquidity, and in addition to those, as a general rule, the Council will aim to ensure that it has a minimum 15% of its investments held with a maturity period of less than one week at all times. Where cashflow expectations dictate, this general rule will be amended accordingly.

6.0 <u>Investment Strategy - Internally Managed Investments</u>

6.1 All investments made during the duration of this Strategy will be in full compliance thereof.

6.2 Decisions, taken within the framework, regarding the period and type of investment, will be taken having regard to future cashflow requirements and likely interest rate movements. A suitable proportion of investments will be held "at call" for contingent purposes to allow for any significant investment opportunities for longer periods that may come available.

6.3 In keeping with the approved Treasury Management Strategies of recent years, the static base rate has led the Council to, where possible, seek to lock into fixed rate deals at advantageous rates through the use of special tranche deals. This practice will continue during 2019/20, subject to: -

(i) the outlook for medium term interest rates (i.e. to avoid locking into deals whilst investment rates are at historically low levels and there is a forecast pick-up in rates over the medium term);

(ii) the management of Counterparty risk;

(iii) any opportunities to repay debt using available investments; and

(iv) the Council's liquidity requirements.

6.4 Maximum strategic use will be made of the Council's call account facilities and the AAA rated money market funds to which the Council has access during the period where prevailing rates are competitive.

7.0 Investment Strategy - Externally Managed Funds

7.1 The Council currently does not engage any Fund Managers to invest monies on its behalf. This position was arrived at following a review of Fund Manager activity and the decision of January 2007 to repatriate funds held by its then Fund Manager.

7.2 Arrangements for the re-engagement of Fund Managers at some point in the future will be considered in consultation with the appointed Treasury Management consultants. Where it is considered that the engagement of a Fund Manager is warranted, then a full tender exercise will be considered and a formal agreement entered into to determine the scope of activity.

8.0 Reporting Arrangements

8.1 Council will receive reports on Treasury Management activity and risks as part of the Corporate Financial Report, which shall initially be considered by the Cabinet.

8.2 Additionally, Council will receive, via Cabinet, an end of year report in relation to the activity undertaken in the preceding year and a review of performance relative to the approved Strategy.

8.3 As a minimum, a mid-year Strategy review will also be undertaken and the Audit and Governance Committee will consider this.

9.0 Capacity, Skills and Culture

9.1 The Council has a responsibility to ensure that the Members and Officers undertaking decisions in relation to Investments have the necessary amount of training and information to enable them to make informed decisions as to whether to enter into a specific investment and to ensure that governance processes around decision making are robust and appropriate.

9.2 A report to Cabinet on 16 November 2016 approved a new investment approach to supporting growth within the borough. Cabinet approved the establishment of a Strategic Investment Panel to consider any strategic investment proposals.

9.3 The Cabinet Report highlighted a set of criteria for assessing strategic investments, which are as follows:-

- Overall Fiscal Benefit – The cost of the investment including interest and repayment and other related costs must be at least matched by additional net revenues, including related local tax revenues.

- Added Value Analysis – The wider benefits of an investment can be added to the above in terms of job creation, environmental impact, etc. However, any net costs of investment must be capable of being funded from within the overall Council budget.

- Benefits Over Time – Future revenues from investment can be taken into account as long as the risks are identified and strategies are in place to manage these risks. In addition, the short term cost must be quantified and funded from within the overall resources of the Council.
- Business Case Production – Each key investment would be subject to a rigorous financial assessment and a formal business case would be produced prior to any commitment and subsequent decision.

9.4 Governance of the above would follow the established decision making process within the Council. The Strategic Investment Panel would recommend to Cabinet and Council those investments it deemed would be beneficial to the Borough, with a report being produced that sets out the proposal, considers the financial implications and highlights any risks and mitigating factors.

9.5 To enable the Members and Senior Officers involved in the investments decision making process to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority, formal training is provided in conjunction with Link Asset Services.

9.6 Due to the complex nature of potential strategic investments, external advice and assessment will be commissioned, where necessary, to ensure that an independent evaluation is undertaken; this may also include support in negotiating commercial deals. In these circumstances, the organisation commissioned to undertake this role will be made aware of the regulatory regime within which the Council operates and of the core principles of the prudential framework.

Annex A

LOCAL GOVERNMENT INVESTMENTS (ENGLAND)
SPECIFIED VERSUS NON-SPECIFIED INVESTMENTS

The English Investment Guidance issued by the then ODPM on 22 March 2004 defined Local Government investments as being either 'Specified' or 'Non-Specified'. The Guidance was, however, non-prescriptive in classifying the various investment instruments available into either of these categories. Indeed, in a continually changing market where new innovative 'products' are frequently being introduced it would be extremely problematical, if not impossible, to do so.

Much focus and emphasis is therefore placed on that element of the Guidance which states that Specified investments should require 'minimal procedural formalities'. The Council's appointed Treasury Management advisors have discussed this issue with the then DCLG, who have expressed their desire to see Local Authorities apply the spirit of the Guidance rather than focus on a legalistic approach to the meaning of words in the Guidance. The spirit of the Guidance is that investment products, which take on greater risk and therefore should be subject to greater scrutiny should be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy and so should fall into the Non-Specified category.

The latest Statutory Guidance on Local Government Investments by the MHCLG, issued on 2 February 2018, introduced a new category of Financial Investment – Loans; this additional category has been included in the guidance to reflect up to date working practices of Local Authorities and is reflected in the tables below.

The following tables have been drafted on that basis.

LOCAL GOVERNMENT INVESTMENTS (England)
SPECIFIED INVESTMENTS

All "Specified Investments" listed below must be sterling-denominated with maturities of up to 1 year

Investment	Repayable/ Redeemable within 12 Months?	Security/ Minimum Credit Rating	Use for Managing Internal Investments?	Maximum Period
Debt Management Agency Deposit Facility (DMADF)	Yes	Govt-backed	Yes	6 months
Term deposits with the UK Government or with UK Local Authorities (i.e. Local Authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	Yes	High security although LAs not credit rated	Yes	1 year
Term deposits with credit-rated deposit takers (Banks and Building Societies), with maturities up to 1 year	Yes	See*	Yes	1 year
Money Market Funds CNAV/LVNAV/VNAV (i.e. a collective investment scheme as defined in SI 2004 No. 534) *These funds do not have any maturity date*	Yes	Yes : AAA	Yes	*The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements*
Forward deals with credit rated Banks and Building Societies < 1 year (i.e. negotiated deal period plus period of deposit)	Yes	See*	Yes	1 year in aggregate
Callable deposits with credit rated Banks and Building Societies, with maturities not exceeding 1 year	Yes	See*	Yes	1 year
Call Account Facilities with credit rated deposit takers (Banks and Building Societies)	Yes	See*	Yes	N/A

* Subject to approved credit rating criteria as determined within the Annual Investment Strategy or as a result of delegation exercised by the Strategic Director of Corporate Services in accordance with approved Treasury Management Practices

LOCAL GOVERNMENT INVESTMENT (England)
LOAN INVESTMENTS

Investment	**Repayable/ Redeemable within 12 months?**	**Loan Book Limit**	**Maximum Maturity of Investments**
Loans with joint ventures	No	£30,000,000	10 years

LOCAL GOVERNMENT INVESTMENT (England)
NON-SPECIFIED INVESTMENTS

Investment	**Repayable/ Redeemable within 12 months?**	**Security/ Minimum Credit Rating**	**Use for Managing Internal Investments?**	**Maximum Maturity of Investments**
Term deposits with credit rated deposit takers (Banks and Building Societies) with maturities greater than 1 year	No	See*	Yes	2 years
Term deposits with the UK Government or with UK Local Authorities with maturities greater than 1 year	No	High Security although LAs not credit rated	Yes	2 years
Banking facility for Merseyside Recycling and Waste Authority	Potentially	High Security although LAs not credit rated	Yes	N/A
Certificates of Deposit with credit rated deposit takers (Banks and Building Societies) *Custodial arrangement required prior to purchase*	Potentially	See*	Yes – after consultation with Treasury Advisors	2 years
Callable deposits with credit rated deposit takers (Banks and Building Societies) with maturities greater than 1 year	Potentially	See*	Yes	2 years
Forward deposits with credit rated Banks and Building Societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	No	See*	Yes – after consultation/advice from Treasury Advisors	2 years in aggregate
Structured Deposits where investment returns are determinant on how specified interest rate structures move over a determined period	Potentially	N/A	Potentially – after consultation with Treasury Advisors	2 years

* Subject to approved credit rating criteria as determined within the Annual Investment Strategy or as a result of delegation exercised by the Strategic Director of Corporate Services in accordance with approved Treasury Management Practices.

	Counterparty Category	**Credit Ratings**				**Maximum Investment (1)**	**Maximum Period**
(i)	Nationalised Banks	See below **(2)**				£20m £30m for RBS Group	2 years including on call
(ii)	Money Market Funds (MMF)	AAA Rated **(3)**				£20m per MMF (£40m total)	On call
(iii)	Other Local Authorities and Public Bodies **(4)**	AA Rated				£10m per LA (£60m total)	2 years
FITCH Ratings		**Long Term**	**Short Term**	**Viability**	**Sovereign**		
(iv)	Authorised institutions (under the Banking Act 1987) which hold a suitable credit rating) **(5)**	AA- and above	F1+	aa- and above	AA+ and above	£20m	2 years
		A and above	F1 and above	a- and above	AA+ and above	£15m	12 months
(v)	Call accounts held with authorised institutions (under the Banking Act 1987) which hold a suitable credit rating **(5)**	AA- and above	F1+	aa- and above	AA+ and above	£20m	On call
		A and above	F1 and above	a- and above	AA+ and above	£15m	On call
(vi)	Building Societies which hold a suitable credit rating	A- and above	F1 and above	a- and above	AA+ and above	£10m (£25m total)	12 months

Annex B

COUNTERPARTY CRITERIA 2019/20

Notes to Counterparty Criteria

1. For each institution meeting the criteria identified above and subject to the limits for maximum investments, no single investment transaction should be undertaken for more than £10m (excluding MRWA).

2. In interpreting the lending criteria detailed above, it should be noted that, for the purpose of the Council's counterparty criteria, the Nationalised banks in the UK, the Royal Bank of Scotland Group, effectively take on the credit worthiness of the Government itself i.e. deposits made with them are effectively being made to the Government (UK Sovereign rating AA). Until such time as a decision is made by the Government to dispose of their interests in these banks, investments with these institutions can be made on the basis that they meet the highest criteria.

3. Each individual Money Market Fund (MMF) used must be separately approved by the Deputy Chief Executive and Strategic Director of Corporate Services by way of an Administrative Decision.

4. The Banking Facilities provided to MRWA are excluded from the Maximum Investment levels and Maximum Period.

5. The legal arrangements of some banks are such that transactions may be available with a subsidiary company that does not have its own viability rating; where this is the case, the viability rating of the parent company will be used to assess the creditworthiness, or otherwise, of the financial institution, against the criteria above.

Annex 3

TREASURY LIMITS AND PRUDENTIAL INDICATORS 2018/19 – 2021/22			2018/19 Revised	2019/20 Estimates	2020/21 Estimates	2021/22 Estimates
1(i)	Proposed capital expenditure that the Council plans to commit to during the forthcoming and subsequent two financial years.	**Capital Expenditure (£m)**	26.002	51.833	29.243	19.908
1(ii)	Additional in-year borrowing requirement for capital expenditure.	**In Year Capital Financing Requirement (CFR) (£m)**	1.445	12.222	(2.721)	(3.139)
2	The CFR is an aggregation of historic and cumulative capital expenditure, which has yet been paid for by either revenue or capital resources.	**Capital Financing Requirement as at 31 March (£m)**	178.720	190.942	188.221	185.082
3	The "net borrowing" position represents the net of the Council's gross external borrowing and investments sums held.	**Net Borrowing Requirement:** External Borrowing (£m) Investments Held (£m) Net Requirement (£m)	103.336 (120.000) **16.664**	99.666 (115.000) **15.334**	96.562 (110.000) **13.438**	93.457 (105.000) **11.543**
4	Identifies the impact and trend of the revenue costs of capital financing decisions will have on the General Fund Budget over time.	**Ratio of financing cost to net revenue stream**	6.41%	6.71%	6.83%	6.54%

5	The Council's Budget Strategy, as a general principle is that no unsupported borrowing should be undertaken as a means of financing capital expenditure plans.	**Incremental impact of capital investment decisions (increase in Council Tax Band D equivalent**)	Nil	Nil	Nil	Nil
6	This represents an absolute limit of borrowing at any one point in time. 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.	**Authorised Limit for External Debt (£m)**	165.207	162.163	162.246	158.608
7	This is the limit beyond which external debt is not normally expected to exceed.	**Operational Limit for External Debt (£m)**	144.514	140.127	136.447	132.887
8	These limits seek to ensure that the Council does not expose itself to an inappropriate level of interest rate risk, and has a suitable proportion of debt.	**Upper Limit for Fixed Interest Rate Exposure**	100%	100%	100%	100%
		Upper Limit for Variable Interest Rate Exposure	50%	50%	50%	50%
9	This limit seeks to ensure liquidity and reduce the likelihood of any inherent or associated risk.	**Upper Limit for Sums Invested over 365 Days**	60%	60%	60%	60%

10	This indicator is used to highlight where an authority may be borrowing in advance of need	**Gross Debt and the CFR (£m)**	(51,998)	(68.543)	(69.570)	(70.165)

Annex 4

Adoption of the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes

The 2011 revision of the CIPFA Code recommends that all public service bodies formally adopt four specific clauses as contained in the Code. All requirements of the Code are implemented through the governance frameworks, policies, systems, procedures and controls in place within the Council and will continue to be so. For completeness it is recommended that Council formally approve the following: -

1. The Council will create and maintain, as the cornerstones for the effective Treasury Management: -

   - A treasury management policy statement, stating the policies, objectives and approaches to risk management of its treasury management activities.

   - 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.

2. 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.

3. The Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Cabinet, and for the execution and administration of Treasury Management decisions in accordance with its Constitutional provisions to the Strategic Director of Corporate Services, who will act in accordance with the Council's approved Policy Statement and TMP's and the CIPFA Standard of Professional Practice on Treasury Management.

4. The Council nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

<u>Annex 5</u>

Treasury Management Policy Statement

The policies and objectives of the Treasury Management function are defined as follows:

1. Treasury Management is "the management of the 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".

2. The successful identification, monitoring and control of risks are 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.

3. It is acknowledged that effective Treasury Management will provide support towards the achievement of its business and service objectives and the Council is committed to the principles of value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.