**AUDIT COMMITTEE – 22 NOVEMBER 2016**

**POLICY AND RESOURCES COMMITTEE – 23 JANUARY 2017**

**COUNCIL – 21 FEBRUARY 2017**

**PART I – NOT DELEGATED**

**12. FINANCIAL PLANNING - TREASURY MANAGEMENT**

(DoF)

1. **Summary**

1.1 The purpose of this report is to enable the Audit Committee and then the Policy and Resources Committee to recommend to Council its Treasury Management Strategy Statement.

2. **Details**

2.1 The Chartered Institute of Public Finance and Accountancy (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”.

2.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

3. **Treasury Management Strategy Statement 2017/18 – 2019/20**

3.1 The Council is required to operate a balanced budget over the medium term which, after allowing for contributions to and from reserves, broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing the requisite liquidity before considering investment return.

3.2 The Treasury Management Strategy Statement for 2017/18 to 2019/20 is attached at Appendix 1.

3.3 The Treasury Management Policy Statement, details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitiored by the Audit Committee. The Council’s investment strategy’s primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The strategy allows the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of maximising the Council’s returns without significantly increasing risk.

4. **Policy/Budget Implications**

4.1 Returns on investments provide a source of income that contributes to the Council’s medium term financial plan.

5. **Legal, Staffing, Environmental, Community Safety, Customer Services Centre, and Website Implications**

5.1 It is a statutory requirement that the Treasury Management Strategy and Treasury Management Practices are reviewed annually. The report meets the requirement of CIPFA’s Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

6. **Financial Implications**

6.1 None specific.

7. **Risk Management Implication**

7.1 The Council has agreed its risk management strategy which can be found on the website at http//www.threerivers.gov.uk.

7.2 The subject of this report is covered by the Finance (Shared Services) Service Plan. Any risks resulting from this report will be included in the risk register and, if necessary, managed within this plan.

**8. Recommendation**

8.1 That this report be noted.

**Background Papers:**

UK Economic Forecasts provided by Capita Asset Services Treasury Solutions;

The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2013 Edition);

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectorial Guidance Notes (2011 Edition);

CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 Edition);

DCLG Guidance on Local Government Investments (2010 Edition);

**Report prepared by:**

Sunjiv Seetul – Finance Manager

Data checked by: Bob Watson – Head of Finance

Data rating:

|  |  |  |
| --- | --- | --- |
| 1 | Poor |  |
| 2 | Sufficient |  |
| 3 | High | **** |

**APPENDICES / ATTACHMENTS**

Appendix 1 Treasury Management Strategy Statement 2017/18 – 2019/20

Annex A Treasury Management Practice (TMP1)

Credit and Counterparty Risk Management

Schedule 1 Details of the ratings criteria and counterparty exposure limits

**APPENDIX 1**

**TREASURY MANAGEMENT STRATEGY STATEMENT 2017 – 2020**

**1.0 Introduction**

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council’s underlying capital appraisal systems. This report updates the approved indicators. Within this overall prudential framework there is an impact on the Council’s treasury management function as it can directly impact on borrowing or investment decisions. As a consequence the treasury management strategy for 2016/17 to 2018/19 is included.

**2.0 The Capital Plans and Prudential Indicators 2017/18 – 2019/20**

The Council’s capital expenditure plans are one of the key drivers of the treasury management function. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

**2.1 T**he Council’s Capital Position

This prudential indicator is a summary of the Council’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the total capital expenditure forecasts within the proposed capital expenditure programme.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2016/17**  **Revised Budget** | **2017/18**  **Budget** | **2018/19**  **Budget** | **2019/20**  **Budget** |
| Total Capital Expenditure | £9.9M | £11.9M | £4.8M | £3.5M |

The capital expenditure programme is financed by a combination of capital receipts, capital grants or use of capital reserves. The Council is also permitted to borrow to finance its capital programme, provided that the borrowing is prudent, affordable and sustainable. Over the next three years there are no planned shortfalls in the level of resources which would result in a need to borrow, however it is always prudent to review the future borrowing requirements and if necessary borrow at the most prudent time based on expectations of need and future rates. The Council is currently debt free; and is expected to continue to be so over the medium term. It is anticipated that the major project in South Oxhey will be internally funded;

**2.2 The Council’s Borrowing Need - The Capital Financing Requirement (CFR)**

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. Even though it is predicted to fund the South Oxhey project through internal funds, it will increase the CFR. Following accounting changes, the CFR also includes any other long term liabilities (e.g. finance leases) that have been brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council’s borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2015/16**  **Actual** | **2016/17**  **Forecast** | **2017/18**  **Estimate** | **2018/19**  **Estimate** | **2019/20**  **Estimate** |
| Total CFR | £0M | £1.4M | £4.7M | £1.2M | £1.2M |

**2.3 Minimum Revenue Provision (MRP) Strategy and Policy Statement**

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Communities and Local Government Regulations require the Council to approve an MRP Statement in advance of each year. Although the South Oxhey Project results in a positive CFR it is recommended that MRP is not applied to this scheme as the project is short-dated, is expected to generate a receipt to cover any financing costs and is mainly improving works, rather than a capital scheme which will depreciate over time; therefore the Council will not be making a Minimum Revenue Provision for this scheme.

**2.4 The Use of the Council’s Resources and the Investment Position**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc).

**3.0 Treasury Management Strategy**

The treasury management strategy is an important part of the overall financial management of the Council’s affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council’s overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council’s treasury activities are regulated by statutory requirements and the CIPFA Code of Practice on Treasury Management. The Council has adopted a Treasury Management Policy Statement in accordance with the code of practice.

The Constitution requires a strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement is to explain the risks associated with the treasury service. Further treasury reports are produced after the year-end to report on actual activity for the year and a mid-year monitoring update. This strategy covers:

* The current portfolio position;
* The borrowing strategy;
* Annual investment strategy;
* Specific limits on treasury activities;
* Treasury performance indicators;
* Reporting requirements;
* Policy on use of external service providers;
* Training of Officers and Members.

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 delivery. This will involve the organisation of both cash flow and the use of approporiate short-term borrowing facilities if required. The strategy covers the relevant treasury prudential indicators, the current and projected debt positions and the annual investment strategy.

**3.1 Current Portfolio Position**

The table below shows the Council’s treasury portfolio position at 31 December 2015. Forward projections allow for the funding of the South Oxhey project from internal cash resources.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Treasury Portfolio** | **2016/17**  **Estimate** | **2017/18**  **Estimate** | **2018/19**  **Estimate** | **2019/20**  **Estimate** |
| External Borrowing | £0M | £0M | £0M | £0M |
| Total Investments 31 March | £26M | £17M | £18M | £18M |

The Council held £26m of investments as at 31 October 2016. Included in the Lloyds Bank total (see table below) is a balance of £3.5m on the current account which is retained for liquidity in order to meet short term cash commitments including precepts. An Interest rate of 0.50% was paid on credit balances on the current account (until 3 Aug 2016) and is currently 0.25% in line with the current bank rate. This information is reported in the monthly Members Information Bulletin.

|  |  |
| --- | --- |
| **Institution** | **Principal (£)** |
|
| ***Banks*** |  |
| Lloyds | 5,500,000 |
| ***Total*** | ***5,500,000*** |
| ***Building Societies*** |  |
| Nationwide | 4,000,000 |
| Principality | 8,000,000 |
| Skipton | 8,500,000 |
| ***Total*** | ***20,000,000*** |
| ***Grand Total*** | ***26,000,000*** |

In accordance with the Code, it is the Council’s priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite.

Monthly Interest Rates to the end of December 2016

|  |  |
| --- | --- |
| **Month** | **Rate Achieved** |
| April | 0.76% |
| May | 0.72% |
| June | 0.78% |
| July | 0.75% |
| August | 0.73% |
| September | 0.71% |
| October | 0.68% |
| November | *To be updated* |
| December | *To be updated* |

The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.50%. The returns up to 31 October averaged 0.73% *(to be updated to Dec 16)*, against a benchmark rate of 0.62%. The average yield return is lower than the benchmark for the year to date. In accordance with its risk appetite, the Council tends to keep the majority of investments short-term (not greater than 364 days).

The budget for interest on investments for 2016/17 is £283,000; interest received up to the end of October was £120,000. In light of current interest earned, this has been revised to £165,000 and the budget adjusted accordingly. Future year’s budgets remain unchanged at this stage.

3.2 Prospects for Interest Rates

*Note for Audit Committee:*

*This information will be provided by our retained treasury advisor Capita Asset Services Treasury Solutions in December 2016 and this section will be updated before P&R committee and the full council meeting.*

* 1. **Treasury Indicators: Limits to Borrowing Activity**

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.

The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

**3.3.1 Treasury Management Indicator - The Operational Boundary**

This is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority’s plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. It is not currently expected that the Council will need to borrow, this limit represents a contingency should the need arise.

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| --- | --- | --- | --- | --- |
| **Operational Boundary** | **2016/17**  **Estimate** | **2017/18**  **Estimate** | **2018/19**  **Estimate** | **2019/20**  **Estimate** |
| Borrowing | £10M | £10M | £10M | £10M |

**3.3.2 Treasury Management Indicator - The Authorised Limit for External Borrowing**

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined undersection 3 (2) of the Local Government Act 2003.

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| --- | --- | --- | --- | --- |
| **Authorised Limit** | **2016/17**  **Estimate** | **2017/18**  **Estimate** | **2018/19**  **Estimate** | **2019/20**  **Estimate** |
| Borrowing | £12M | £12M | £12M | £12M |

**3.3.3 Treasury Management Indicator – Actual External Debt**

This is the closing balance for actual gross borrowing obtained directly from the council’s Balance Sheet at year end.

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals within this report regarding future external borrowing.

**3.4 Borrowing Strategy**

Although at this stage there is no requirement to borrow externally over the medium term, the Council has a number of regeneration projects and it is possible that these may require pump priming for the necessary infrastructure works. Any external borrowing that is required by the Council will be reported to Members at the appropriate time.

Although the Council’s treasury team maintains a cashflow forecast and works its liquidity requirements within this forecast, it may, on rare occasions need to borrow short-term for cashflow purposes. This will be in the form of short term debt or overdraft facilities and is normally for small amounts. As this is based on need and has a defined repayment period it is not normally included within the limits set above.

**3.5 Annual Investment Strategy**

**3.5.1 Key Objectives**

The Council’s investment strategy’s primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The current economic ensures that the current investment climate has one over-riding priority which is the management of counterparty security risk.

In order to accommodate any changes to the Strategy the the Director of Finance in consultation with the Lead Member, has the delegated authority to approve any variation to the Treasury Management Startegy during the year which may be brought about by changing situations in the financail markets and also as a result of investigating the opportunity to invest for period of greater than one year and to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of maximising the Council’s returns. As with all investments, security and liquidity will take precedence over the level of returns.

**3.5.2 Investment Policy**

The Council’s investment policy has regard to the DCLG’s Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities are security first, liquidity second, then yield.

Investment instruments identified for use in the financial year are listed below under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices Schedules and are detailed at Annex A.

As part of its diversification of investments, the Council will consider the use of investing some of its core funds (ie: funds not immediately required for cashflow reasons) in longer–term investment property instruments. These may take the form of individual assets owned by the council or by investment in pooled property funds. Any property investment is dependent on the development of a Property Investment Strategy and any individual acquisitions will be subject to a full business case before any Council funds are committed. When developed, the Property Investment Strategy will include a scheme of delegation, type of assets (eg: residential and commercial) and prudent investment limits; this form a separate Annex to the TMS.

**3.5.3 Creditworthiness policy**

The Council will ensure:

* It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
* It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary and will provide an overall pool of counterparties considered high quality.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council’s criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) 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.

**Counterparty Categories**

The Council uses the following criteria in choosing the categories of institutions in which to invest:

* **Banks 1 - Good Credit Quality**

The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.

* **Banks 2 – The Council’s Own Banker**For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.
* **Bank Subsidiary and Treasury Operations** –the Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.
* **Building Societies**The Council will use all Societies which meet the ratings for banks outlined above.
* **Specific Public Bodies**The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.
* **Money Market Funds AAA Rated**

The Council may lend to Money Market Funds in order to spread its investment risk.

* **Local Authorities**

A limit of £2m per authority will be applied.

* **Debt Management Deposit Account Facility**

A Government body which accepts local authority deposits.

The current investment counterparty criteria selection approved in the Treasury Management Strategy is being met.

For details of Specified and Non-Specified Investments see below.

**Use of Additional Information Other Than Credit Ratings**

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely 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 pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

**Time and Monetary Limits Applying to Investments**

The time and monetary limits for institutions on the Council’s Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

**Exceptional Circumstances**

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 the exceptional current market conditions Director of Finance 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.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

**3.5.4 Investment Strategy**

**In-House Funds** -investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment Returns Expectations:**

*Note to Audit Committee*

*This information will be provided by our retained treasury advisor Capita Asset Services in December 2016 and this report will be updated before P&R Committee in January and the Council meeting in February 2017*

**Investment Treasury Indicator and Limit** - total principal funds invested for greater than one year. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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| --- | --- | --- | --- |
| **Treasury Indicator & Limit** | **2016/17** | **2017/18** | **2018/19** |
| Maximum Principal Sums invested for greater than one year | £10m | £10m | £10m |

**3.5.5 Investment Risk & Security Benchmarking**

These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. In line with the Treasury Management Strategy, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

**Security**

Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moodys and Standard & Poors).

**Liquidity**

The Council set liquidity facilities/benchmarks to maintain:

* Authorised bank overdraft - nil.
* Liquid short term deposits of at least £5m available with a week’s notice.
* Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body.

The Council has the benefit of instant access to its funds on the general account with Lloyds.

**Yield**

The measure of yield on Investments is a return of 0.12% above average bank rate. In accordance with the Code of Practice on Treasury Management which is used as a performance indicator. The results of this indicator for 2015/16 will be reported in the Treasury Annual Report.

**3.6 Reporting Requirments**

**End of Year Investment Report** - the Council will report on its investment activity for the financial year completed as part of its Annual Treasury Management Report after the end of the financial year.

**Mid-year Investment Report** – the Council will report on its investment activity for that financial year as part of its Mid Year Treasury Management Report at the end of September of that financial year.

**Treasury Management Strategy** – the Council will produce the Strategy for the next three financial years towards the end of the current financial year.

**3.7 Policy on the Use of External Service Providers**

The contract for external treasury management advisors has been re-tendered in October 2016, and following this, Capita Asset Services Treasury Solutions have been appointed as the advisors to the Council until Ooctober 2019. The Council recognises that responsibility for treasury management decisions remains with the Council 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.

The Council will also, from time to time, procure specialist advice for ad-hoc pieces of work; this will be procured in accordance with the Council’s normal procedure rules.

**3.8 Member and Officer Training**

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

* Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
* Keeping up to date with CIPFA publications on Treasury Management;
* Regular briefings both by email and face to face with the Council’s consultants;
* Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

**Treasury Management Practice (TMP1) ANNEX A**

**Credit and Counterparty Risk Management**

The DCLG issued a reviewed Investment Guidance in 2010 (second edition), and this forms the structure of the Council’s policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime*.*

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced this Treasury Management Practices (TMP’s) guidance.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy for the following year*,* covering the identification and approval of following:

* The strategy guidelines for choosing and placing investments, particularly non-specified investments;
* The principles to be used to determine the maximum periods for which funds can be committed;
* Specified investments that the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year;
* Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy Guidelines** – the main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified Investments** – these investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. A local authority, parish council or community council.
3. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poor’s, Moody’s or Fitch rating agencies or a Building Society with assets over £1,000m*.* Non rated Building Societies are non-specified investments.
4. Money Market Funds (triple AAA rated only).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy*.*

The ratings criteria and exposure limits are detailed at **Schedule 1.**

**Non-Specified Investments** – non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

|  |  |  |
| --- | --- | --- |
|  | **Non Specified Investment Category** | **Limit (£ or %)** |
|  | Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment). | £5m |
|  | The Council’s own banker if it fails to meet the basic credit criteria. | In this instance balances will be minimised as much as possible |
|  | Building Societies not meeting the basic security requirements under the specified investments.  The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000M, but will restrict these types of investments to £2m for up to six months. | £2m |
|  | Specific Public Bodies  The Council can seek Member approval to make loans to other public bodies for periods of more than one year. | £10m |

In accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

In respect of category d this will only be considered after obtaining external advice and subsequent Member approval.

The Council will also consider investment in property in accordance with its Property Investment Strategy (to be developed). All property investments will be dependent on a standalone business case being proven.

**The Monitoring of Investment Counterparties**

The credit rating of counterparties is monitored regularly. The main rating agencies (Fitch, Moody’s and Standard & Poor’s) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties; F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard & Poor's respectively. Minimum Short Term Ratings, where given, must be met for all categories. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Institution Type** | **Max Amount:** | | | **£5m** | **£10m** | **£10m** | **£10m** | **£10m** | **Schedule 1** |
|  | **Max Length:** | | | **10 Years** | **364 Days** | **6 Months** | **3 Months** | **1 Month** |
|  | **Minimum Short Term Ratings** | | |  |  |  |  |  |
|  | **Fitch** | **Moody's** | **S&P** |  |  |  |  |  |
| **UK Banks** |  |  |  |  |  |  |  |  |
| The Council's own Bankers | F1 | P-1 | A-1 | If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible. | | | | |
| Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings | F1 | P-1 | A-1 |  | Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating | Backed up by single A long term ratings by all agencies | Backed up by lower than A long term rating | Backed up by lower than A long term rating |
| Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings | F1 | P-1 | A-1 |  | Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating | Backed up by single A long term ratings by all agencies | Backed up by lower than A long term rating | Backed up by lower than A long term rating |
| **UK Building Societies** |  |  |  |  |  |  |  |  |
| Either | F1 | P-1 | A-1 |  | Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating | Backed up by single A long term ratings by all agencies | Backed up by lower than A long term rating | Backed up by lower than A long term rating |
| Or |  |  |  |  | Assets over £15,000m | Assets over £5,000m | Assets of £2,500m | Assets of £1,000m |
| **Specific Public Bodies** |  |  |  | As approved by Members |  |  |  |  |
| **Debt Management Deposit Facility (UK Government)** |  |  |  |  |  | Unlimited |  |  |
| **Money Market Funds (AAA Rated)** |  |  |  |  |  |  |  | £5m per fund |
| **UK Local Authorities** |  |  |  | The Council can invest in all UK Local Authorities whether rated or not |  |  |  |  |

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.

2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).

3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.

4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

**Annex B**

**Property Investment Strategy**

(draft)

## Background. Currently the Council holds all its investments as financial instruments – mainly as cash deposits with individual financial institutions. This has an inherent risk of holding all its assets in one type of instrument. Placing investments with financial institutions can be diversified by investing in property through either a pooled property investment fund or by purchase of individual property assets.

## The number of quality financial institutions accepting deposits is falling and subsequently the return on the Council’s investments is likely to remain low for many years to come. Unlike cash deposits, property investments can offer a reasonable revenue return and also be a useful source of capital growth.

## Such investments would ordinarily be deemed as capital expenditure, and as such would need to be accounted for as part of the capital programme, however the Authority can achieve its investment property objectives by relying upon the investment power granted by s.12 of the Local Authority Act 2003.

Investment in Property – Pooled property fund.

The Council could diversify its portfolio into property by investing in a pooled property fund or by individual purchase of investment property assets.

## A pooled property investment fund comprises a portfolio of commercial properties to achieve investment returns through rental income and capital growth. However, the value of such investments may fall as well as rise. These funds are normally managed by a property fund manager and the Council could purchase shares within the fund and would pay a fee for this service (normally deducted from any dividend payments).

## Due diligence would be undertaken before the local authority would enter into this or any other type of investment and the level of investment would be determined with the assessment of cash balances and cashflow projections. The Council would take advice from its retained treasury advisors before entering into any fund share purchase.

Investment in Property – individual property acquisitions.

As an alternative to a pooled fund, the Council could acquire property for investment purposes which it would then own and collect a revenue rental stream from. There may also be an element of capital growth or loss of value associated with this.

Investment property need not be limited to being within the Council’s district boundaries as it is held solely for investment purposes with no economic development considerations.

Any properties would have to be managed, either in-house or through a management company.

The acquisition of any property must be dependent on a full business case being presented and the case made for investment. Levels of risk should be in line with the Council’s standard approach on all investments and yield should not be the governing factor.

Property investment could be in residential or commercial (eg: retail, office, industrial) properties and consideration must be given to location, security and term of tenure, rental reviews, standard of maintenance and asset value. VAT implications should always be considered prior to making a purchase.

Property strategy.

## To enable investments in property, the following should be included in the investment portfolio:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Security /Minimum Credit Rating | Use | Maximum Investment | Maximum Period |
| Property Investment Fund | TBA | In house | £X m | These funds do not have a defined maturity date but can normally be liquidated on a given notice period. |
| Individual property assets purchase | N/A but risk should be assessed on an individual basis | In house | £X m | These are normally long-term holds for revenue income stream purposes, however assets can be disposed of to realise capital funds |

## The Council must ensure it has reasonably adequate level of core funds to facilitate the expenditure in property investment. The council will not invest more than 50% of its core funds in property.