

Three Rivers District Council

Appendix 1

# Treasury Management Strategy Statement 2022/23

DRAFT DECEMBER 2022

## 1. Summary

- 1.1. This document sets out the Council's Treasury Management Strategy Statement (TMSS).
- 1.2. 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".
- 1.3. The TMSS supports the delivery of the Council's Capital Strategy and provides additional detail on how the Council manages its Treasury Management Activity.
- 1.4. The TMSS details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The primary objectives of the Treasury Management Strategy Statement are:
  - Security - Safeguard the repayment of the principal and interest of its investments on time
  - Liquidity - Ensure adequate liquidity to meet obligations as they fall due
  - Yield - Investment return is the final objective and is considered after security and liquidity requirement have been satisfied.
- 1.5. This statement is reviewed and approved annually by Council alongside the Council's budget, Medium Term Financial Plan (MTFP) and Capital Strategy.
- 1.6. The Director of Finance in consultation with the Lead Member for Resources and Shared Services has delegated authority to approve any variation to the Strategy Statement during the year with the objective of maximising the Council's returns without significantly increasing risk.

## 2. Risks

- 2.1. The key Treasury Management risks are set out in the CIPFA Treasury Management Code of Practice ("the TM Code"). The following paragraphs set out these risks and how they are managed:

### **Liquidity Risk**

That the Council may not have the cash it needs on a day to day basis to pay its bills.

This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.

### **Interest Rate Risk**

That the costs and benefits expected do not materialise due to changes in interest rates.

This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

### **Exchange Rate Risk**

That losses or gains are made due to fluctuations in the prices of currency.

The Council does not engage in any significant non-sterling transactions.

### **Credit and Counterparty Risk**

That the entity holding Council funds is unable to repay them when due. This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited.

### **Refinancing Risk**

That the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher.

The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.

### **Legal and Regulatory Risk**

That the Council operates outside its legal powers.

This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.

### **Fraud, Error and Corruption**

The risk that losses will be caused by impropriety or incompetence.

This risk is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds.

### **Market Risk**

That the price of investments held fluctuates, principally in secondary markets.

The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

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

- 3.1. 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. These indicators are set out in the Capital Strategy.
- 3.2. 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.

## **4. Borrowing Strategy**

- 4.1. The Council's treasury team maintains a cashflow forecast and works its liquidity requirements within this forecast; it may, on rare occasions, be necessary 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 for minimum durations. As this is based on need and has a defined repayment period it is not normally included within the limits set above.
- 4.2. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated (ie: the cost of holding does not outweigh the benefits of

early borrowing) and that the Council can ensure the security of such funds. Any associated risks will be approved and reported through the standard reporting method.

## 5. Investment Policy

- 5.1. The Council's investment policy has regard to the statutory Guidance on Local Government Investments and TM Code. The Council's investment priorities are security first, liquidity second, then yield.
- 5.2. 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.
- 5.3. As part of its diversification of investments, the Council has invested some of its core funds (ie: funds not immediately required for cashflow reasons) in longer-term investment property instruments. These are in the form of individual assets directly owned by the council. Although the Council has no current investments or plans to invest in pooled property funds, these are an option that could be considered in the future. All property investments are controlled through the Property Investment Board (PIB) and each investment is subject to its own business case and appraisal before a decision to invest is taken and before any Council funds are committed.
- 5.4. During 2020/21 the Council made a small Money Market Fund investment with Royal London Asset Management to diversify placement of some longer term cash. It is intended to continue to make use of this fund during 2023/24 while cash balances permit.

## 6. Creditworthiness policy

- 6.1. 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.
- 6.2. 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.
- 6.3. 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.

## 7. Counterparty Categories

- 7.1. 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 £5m per authority will be applied.

- **Debt Management Deposit Account Facility**

A Government body which accepts local authority deposits.

- **Council Subsidiaries (non-specified)**

The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

7.2. Further details of counterparty categories and limits are set out Annex A Schedule of Specified and Non-Specified Investments.

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

## 8. The Monitoring of Investment Counterparties

8.1 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.

8.2 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.

- 8.3 For non-specified investments (e.g. e-f above) the progress of the entity against the approved, independently verified business case will be monitored by the Director of Finance.

## 9. Use of Additional Information Other Than Credit Ratings

- 9.1 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.

## 10. Time and Monetary Limits Applying to Investments

- 10.1 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.

## 11. Exceptional Circumstances

- 11.1 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.
- 11.2 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.

## 12. Investment Strategy

- 12.1 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).
- 12.2 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.

Treasury Indicator & Limit	2022/23	2023/24	2024/25	2025/26
Maximum Principal Sums invested for greater than one year (excluding property investment and loans to Council subsidiaries).	£10m	£10m	£10m	£10m

### 13. Investment Risk & Security Benchmarking

13.1 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. The benchmarks are as follows:

#### **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). Where investments are made to Council subsidiaries (non-listed), the security is measured through a business case with independent viability assessment.

#### **Liquidity:**

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £0.5m available with a week's notice.

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

#### **Yield:**

The Council benchmarks the yield on its operational cash against SONIA (the Sterling Overnight Index Average). This is a measure of market rates for actual returns on overnight cash deposits. Performance against this indicator will be reported in the reports produced at mid-year and year-end.

### 14. Reporting Requirements

14.1 The Audit Committee has the responsibility for the scrutiny of Treasury Management policies and practices and receives the Treasury Management Policy for review prior to approval by Council.

14.2 An annual report on the performance of the Treasury Management function, including the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy is considered by Council following the end of the financial year

14.3 Council also receives a Mid-Year Treasury Management Report setting out activity to 30 September.

### 15. Policy on the Use of External Service Providers

15.1 Link Asset Services are the appointed external advisors. 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.

15.2 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.

## **16. Member and Officer Training**

16.1 In order to ensure that Members and Officers are sufficiently trained and qualified to monitor and manage the Council's Treasury Management activity, the following measures are in place:

- 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 Treasury advisors;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.



## Annex A

Non Specified Investment Category	Limit (£ or %)
<p><b>Any bank or building society</b> 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).</p>	£5m
<p><b>The Council's own banker</b> if it fails to meet the basic credit criteria.</p>	In this instance balances will be minimised as much as possible
<p><b>Building Societies not meeting the basic security requirements</b> under the specified investments.</p> <p>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.</p>	£2m
<p><b>Specific Public Bodies</b></p> <p>The Council can seek Member approval to make loans to other public bodies for periods of more than one year.</p>	£10m
<p><b>Loans to Council Subsidiaries</b></p> <p>The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.</p>	£10m limit for any single loan
<p><b>Other unspecified investments</b></p> <p>The strategy allows the Portfolio Holder, in consultation with 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 to maximising the Council's returns without significantly increasing risk. This allows the addition of further unspecified investments, subject to conditions which will be generally similar to (e).</p>	£10m

Institution Type	Minimum Short Term Ratings			Schedule 1 (A) – UK Banks & Building Societies			
	Fitch	Moody's	S&P				
The Council's own Bankers	F1m	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	Long Term Credit Rating: AA(F), Aa2(M), AA(S&P)	Long Term Credit Rating: Single A (All agencies)	Long Term Credit Rating: Lower than A (All agencies)	Long Term Credit Rating: Lower than A
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1				
UK Building Societies (Credit Rated)	F1	P-1	A-1				
UK Building Societies (Unrated)				Assets over £15bn	Assets over £5bn	Assets of £2.5bn	Assets of £1bn
	<b>Maximum Amount / Duration:</b>			<b>£10m 364 Days</b>	<b>£10m 6 Months</b>	<b>£10m 3 Months</b>	<b>£10m 1 Month</b>

<b>Schedule 1 (B) – Other Entities</b>	
Specific Public Bodies	As approved by Members – up to £10m for up to 10 years
Debt Management Deposit Facility (UK Government)	Unlimited – this is the Council's Safe-Haven Deposit facility with the UK Government
Money Market Funds (AAA Rated)	£5m per fund
Municipal Bond Agency	As approved by Members
UK Local Authorities	<p>A Maximum of £5m applies per Authority.</p> <p>The Council can invest in all UK Local Authorities whether rated or not.</p> <p>The Council will not lend to an authority which is subject to a s.114 notice without member approval.</p>

## 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).