

# **Treasury Management Strategy Statement**

## **Minimum Revenue Provision Policy Statement and Annual Investment Strategy**

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North Hertfordshire District Council 2017/18

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# 1 INTRODUCTION

## 1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

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

## 1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

**A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance, Audit and Risk Committee.

### **1.3 Treasury Management Strategy for 2017/18**

The strategy for 2017/18 covers two main areas:

#### **Capital issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

#### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

### **1.4 Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed and training will be arranged for both members and officers as required.

### **1.5 Treasury Management Consultants**

The Council uses Capita Asset Services, Treasury solutions 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 assessment of the value they provide is properly agreed and documented, and then subject to regular review.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

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

### 2.1 Capital Expenditure

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.

Capital expenditure £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Advances & Cash Incentives	-56	0	548	548	0
Asset Management	279	7,445	850	2,600	150
Building Control	0	53	0	0	0
CCTV	0	16	60	0	0
Community Services	145	668	340	250	250
Computer Software & Equipment	316	372	366	215	453
Corporate Items	122	2,513	0	0	0
Growth Fund Projects	1	20	652	0	0
Leisure Facilities	802	4,648	1,133	0	0
Museum & Arts	902	872	0	0	0
Parking	302	802	415	0	0
Renovation & Reinstatement Grant Expenditure	711	714	805	805	805
Town Centre Enhancement	0	0	141	0	0
Waste Collection	0	35	3,600	0	0
<b>Total</b>	<b>3,524</b>	<b>18,158</b>	<b>8,910</b>	<b>4,418</b>	<b>1,658</b>

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. Given the Council's CFR position (see below) this will be met by a drawdown of cash investments, rather than actual borrowing.

Financing of capital expenditure £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Receipts	877	4,838	1,434	2,401	1,004
Government Grants	362	674	1,397	654	654
Other Capital Contributions	539	926	413	0	0
Revenue Contributions	0	4	0	0	0
S106 Funding	378	448	393	0	0
<b>Net financing need for the year</b>	<b>1,368</b>	<b>11,268</b>	<b>5,273</b>	<b>1,363</b>	<b>0</b>

## 2.2 The Council's Borrowing Need (the Capital Financing Requirement)

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

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

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase 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 currently has £0.145m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>-18,827</b>	<b>-7,559</b>	<b>-2,286</b>	<b>-923</b>	<b>-923</b>
<b>Movement in CFR</b>	<b>1,368</b>	<b>11,268</b>	<b>5,273</b>	<b>1,363</b>	<b>0</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	1,368	11,268	5,273	1,363	0
Less MRP/VRP and other financing movements	0	0	0	0	0
<b>Movement in CFR</b>	<b>1,368</b>	<b>11,268</b>	<b>5,273</b>	<b>1,363</b>	<b>0</b>

## 2.3 Minimum Revenue Provision (MRP) 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).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

Since the CFR will remain negative over the period 2017/18 to 2019/20 there is no need to make an MRP in the General Fund.

NHDC are participating in the Local Authority Mortgage Scheme (LAMS). A deposit of £500K was placed with both Leeds Building Society and Lloyds in November 2012. The mortgage lenders require a 5 year cash advance from the local authority to match the 5 year life of the indemnity. The cash advance placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The CFR has increased by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. The returned funds are classed as a capital receipt and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set

aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position will be reviewed on an annual basis.

## 2.4 Core Funds and Expected Investment Balances

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 (e.g. asset sales). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

<b>Year End Resources £'000</b>	<b>2015/16 Actual</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
Fund balances / reserves	7,085	5,918	5,074	4,919	4,090
Capital receipts	5,462	624	230	229	974
Provisions	955	1,000	1,000	1,000	1,000
Other	4,605	4,325	4,325	4,325	4,325
<b>Total core funds</b>	<b>18,107</b>	<b>11,867</b>	<b>10,629</b>	<b>10,473</b>	<b>10,389</b>
Set Aside Receipts	19,918	16,633	5,871	27	111
<b>Expected investments</b>	<b>38,025</b>	<b>28,500</b>	<b>16,500</b>	<b>10,500</b>	<b>10,500</b>

## 2.5 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

## 2.6 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

<b>%</b>	<b>2015/16 Actual</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
Ratio	-2.27%	-2.49%	-1.60%	-0.45%	-0.41%

The estimates of financing costs include current commitments and the proposals in this budget report. The figures are negative because NHDC receives a greater amount of investment interest than it pays loan interest. The ratio is falling due to a reduction in estimated investment interest. The interest is reducing as investments are drawn down to fund the Capital Programme.

## 2.7 Incremental Impact of Capital Investment Decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period. Any shortfall in capital funding will be met by a drawdown on cash investments. The table below shows the likely impact on the General Fund and the equivalent incremental impact of Capital investment on Council Tax.

**Incremental impact of capital investment decisions on the band D council tax**

	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
<b>Loss of investment interest in General Fund</b>	£44K	£113K	£37K	£10K
<b>Equivalent increase in Council Tax</b>	0.45%	1.13%	0.36%	0.09%



### 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### 3.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
<b>External Debt</b>					
Debt at 1 April	1,572	1,515	480	455	439
Expected change in Debt	-57	-1,035	-25	-16	-17
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	<b>1,515</b>	<b>480</b>	<b>455</b>	<b>439</b>	<b>422</b>
The Capital Financing Requirement	<b>-18,827</b>	<b>-7,559</b>	<b>-2,316</b>	<b>-953</b>	<b>-953</b>
Under / (over) borrowing	<b>1,515</b>	<b>480</b>	<b>455</b>	<b>439</b>	<b>422</b>

The Council has a negative CFR which gives a position of "over borrowing". This is due to borrowing taken out before the receipt of income from the sale of the housing stock.

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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 in this budget report.

### 3.2 Treasury Indicators: Limits to Borrowing Activity

#### The Operational Boundary.

This is the limit beyond which external debt is not normally expected to exceed

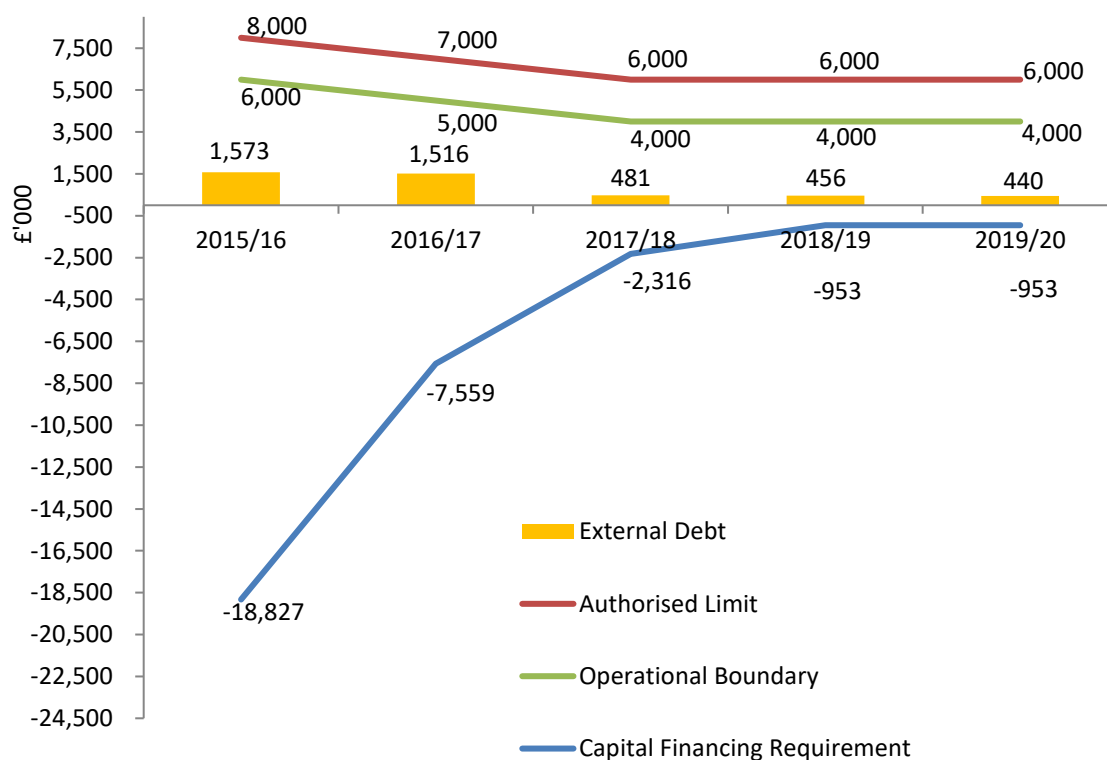
Operational boundary £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	5,000	4,000	4,000	4,000
Other long term liabilities	0	0	0	0
Total	5,000	4,000	4,000	4,000

#### The Authorised Limit for External Debt.

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	7,000	6,000	6,000	6,000
Other long term liabilities	0	0	0	0
Total	7,000	6,000	6,000	6,000



### 3.3 Prospects for Interest Rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

### 3.4 Borrowing Strategy

The Council is currently maintaining an over-borrowed position. This is because the Council has both a negative CFR and outstanding debt. This is due to the legacy of outstanding debt incurred prior to the receipt of income from the sale of the housing stock. Debt has not been repaid early as the premium for early redemption is extremely expensive. Outstanding debt will continue to reduce over time as loans reach maturity which means that this indicator will show as "over borrowed" for the foreseeable future.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Strategic Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The CFR as at the 1st April 2017 is estimated to be a negative £7.559M. Where the CFR is nil or negative on the last day of the financial year, this indicates that the Authority's provision for debt is equal to or greater than the debt incurred. There is accordingly no need to make a Minimum Revenue Provision in the following year. Without a significant increase in the amount of borrowing it is estimated the Capital Financing Requirement will remain negative during 2017/18 and 2018/19. The CFR requirement of a local authority will increase whenever capital expenditure is incurred and not resourced immediately (from useable capital receipts, direct charge to revenue or capital grant) and represents an increase in the underlying need to borrow for a capital purpose. This will be the case whether or not external borrowing actually occurs.

#### Treasury management limits on activity

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

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

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

	2017/18 £'000	2018/19 £'000	2019/20 £'000
<b>Interest rate exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	-11,509	-10,171	-10,187
<b>Limits on variable interest rates based on net debt</b>	-3,453	-3,051	-3,056
<b>Limits on fixed interest rates:</b>			
• Debt only	480	456	440
• Investments only	-11,990	-10,627	-10,627
<b>Limits on variable interest rates</b>			
• Debt only	144	137	132
• Investments only	-3,453	-3,188	-3,188
<b>Maturity structure of fixed interest rate borrowing 2017/18</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	7%	100%	
12 months to 2 years	5%	100%	
2 years to 5 years	10%	100%	
5 years to 10 years	19%	100%	
10 years and above	59%	100%	
<b>Maturity structure of variable interest rate borrowing 2017/18</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	100%	

### 3.5 Policy on Borrowing in Advance of Need

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

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

### 3.6 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Cabinet, at the earliest meeting following its action.

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment Policy

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

Investment instruments identified for use in the financial year are listed below in 4.2

### 4.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, which includes credit, liquidity and market risk. After this the return (or yield) is then considered, which provides an income source for the Council. The Council will ensure that:

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

Fitch ratings will be used to identify the risk associated with each counterparty. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

In light of the collapse of the Icelandic banks, NHDC will continue the policy to not invest any funds in non UK registered banks. From recent experiences the UK

Government has been willing to assist troubled institutions in the UK and as such, the amount of risk to the Council of investing in UK banks is considered less than investing in non UK banks.

NHDC will only lend to UK banks with a credit rating for longer term deals of “BBB” or above and F3 or above for short term credit ratings. (These are Fitch definitions of ratings). For further clarification, NHDC will invest in foreign banks with a UK subsidiary if they are subject to the same stress tests as UK banks.

Deposits and Certificates of Deposits will be placed with the following investment counterparties:

- Banks 1 - good credit quality – the Council will only use banks which:
  - i. are UK banks;
  - ii. are UK subsidiaries of foreign banks that are subject to the same stress tests as UK banks

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

- i. Short term – F3
  - ii. Long term – BBB
- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks will be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
  - Banks 3 – The Council’s own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
  - Banks 4 - UK Banks wholly owned subsidiaries -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
  - Building societies

Not all building societies are credit rated but this will not preclude them from the lending list if they fulfil the criteria below. (Building societies have to pay the credit rating agency to obtain a rating). Where a society does have a credit rating, this will be considered at the time of the deal taking into account the amount of investment and the length of the deal.

Unrated Building Societies produce annual reports known as Pillar 3 reports. These provide some information regarding the risks and capital adequacy of the Society. These reports will be reviewed by Officers before agreeing to deposit funds with the Society.

The Council will use all societies which:

- i. Have assets in excess of £0.3bn
- Money market funds – AAA rated only
  - UK Government (including gilts and the DMADF)
  - Other Local authorities
  - Local Authority Mortgage Scheme. Under this scheme the Council was required to place funds of £500K, with Leeds Building Society and Lloyds for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified / non specified categories.

- Property Funds – within the UK

There are both up-front set up and exit costs for Property Funds. The capital value of these funds also fluctuates over time. Whilst in general it is possible to exit these funds at any time, there are likely to be more optimum times to do so. Therefore, there will not be a requirement to disinvest in line with the maximum period of investment of 5 years, and instead investments will be monitored on a regular basis to balance the need for cash (liquidity risk) with exit costs (market risk).

The Council will seek to ensure a reasonable spread of the cash investments across multiple counterparties. Maximum limits will apply as detailed in the table below. In addition the overall percentage of outstanding investments with each counterparty will not be more than 10% of total investments outstanding.

	Total Maximum Amount Invested		
	£9 Million	£6 Million	£4 Million
UK Clearing Banks with a credit rating of BBB or above	All		
UK Clearing Banks – Wholly owned Subsidiaries with a credit rating of BBB or above	All		
UK Subsidiaries of Foreign Banks with a credit rating of BBB or above	All		
AAA rated Money Market Funds	All		
Building Societies	Assets Over £2.5bn	Assets £1bn to £2.5bn	Assets £0.3bn-£1bn
Public Corporations	All		
Other Local Authorities	All		

The Council's general banking provider, Lloyds, is excluded from the above limits in as far as the balance available in the current account.

Credit ratings are obtained and monitored by officers on a monthly basis. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be placed with that entity;
- depending on the severity of the downgrade, consideration will be given to recalling any existing investments that can be done so at no cost.

### Financial Sector considerations

Limits will be used to ensure a degree of spread of the exposure to one particular sector:

- no more than 75% of investments will be placed with banks;
- no more than 75% of investments will be placed with Building Societies;
- no more than 25% of investments will be placed with Property Funds
- as Property Funds and Building Societies are exposed to the property market, the combined value of these investments will not exceed 75%
- no more than 25% of investments will be placed with Money Market Funds.



### **Use of additional information other than credit ratings.**

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties.

### **4.3 Investment Strategy**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

#### **Investment returns expectations.**

The Bank Base Rate is forecast to stay flat at 0.25% until quarter 2 2019 when it will increase to 0.5% and then increase to 0.75% in quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The estimated investment interest for 2017/18 is approximately £0.27M. This has been calculated using an average interest rate of 0.7% for new deals made during the year via the Cash Manager and 0.5% for those placed by Officers in house.

#### **Investment treasury indicator and limit**

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

<b>Maximum principal sums invested &gt; 364 days</b>			
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Principal sums invested > 364 days	40% of Total Investments	40% of Total Investments	40% of Total Investments

A maximum of 40% of total investments may be invested longer than 364 days with a maximum term of 5 years. Investments that do not have a maturity date can be held for longer than 5 years, but will be kept under regular review (at least annually). All decisions made on long term investments will be dependant on market conditions and cashflow. Deals longer than two years will require approval by the S151 Officer.

As with the 16/17 strategy, in house deals may be placed for longer than 364 days should the appropriate opportunity arise.

### **4.4 End of Year Investment Report**

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

#### 4.5 Cash Manager

The Council's Cash Manager, Tradition will comply with the Annual Investment Strategy.

The maximum levels expected for 2017/18 are as follows:

External Cash Manager	£30 Million (no change from 16/17)
Managed In House	£30 Million (no change from 16/17)

The value managed in house will be used to control daily cash flow and monitor internal performance with the Cash Manager. The levels of funds split between the Cash Manager and in house will be monitored throughout the year to ensure there are sufficient funds maintained to meet all cash flow requirements. If funds are required, the level placed with the Cash Manager will be reduced.