STROUD DISTRICT COUNCIL

AGENDA ITEM NO

10

AUDIT AND STANDARDS COMMITTEE

28 JANUARY 2020

Report Title	**TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2020/21**
Purpose of Report	This report outlines the Council's prudential indicators for 2020/21 – 2022/23 and sets out the treasury strategy for this period. It fulfils three key reports required by the Local Government Act 2003: • reporting prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities; • a treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management; • an investment strategy in accordance with the MHCLG investment guidance. It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2020/21.
Decision(s)	**The Audit and Standards Committee RECOMMEND that Council:** **1. adopt the prudential indicators and limits for 2020/21 to 2022/23;** **2. approve the treasury management strategy 2020/21, and the treasury prudential indicators;** **3. approve the investment strategy 2020/21, and the detailed criteria for specified and non-specified investments; and** **4. approve the MRP Statement 2020/21.**
Consultation and Feedback	Link Asset Services (LAS)
Financial Implications and Risk Assessment	The Council has a responsibility to set a Treasury Management Strategy for the effective management of investments and borrowings. The Strategy proposed within is in line with the Medium Term Financial Plan including estimates of capital expenditure, borrowing costs and targets for income receivable. All specific financial implications are addressed throughout the body of the report. Andrew Cummings, Strategic Director of Resources Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk
Legal Implications	There are no significant legal implications arising from the recommendations in this report Patrick Arran, Interim Head of Legal & Monitoring Officer Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk

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Options	Full Council is required to adopt the prudential indicators and approve the annual treasury management strategy. These are largely determined by the Council's revenue and capital budget decisions when setting the 2020/21 Council Tax, Housing rent levels and the capital programme.
Performance Management Follow Up	Quarterly and annual Treasury Management reports of actual compared with estimated prudential indicators for 2020/21. Any breaches of the Prudential Code will be reported to the Audit and Standards Committee. A breach of the Authorised Borrowing Limit would require immediate investigation and reporting to Council.
Background Papers	Treasury Management Policy Statement Treasury Management Practices - Main Principles Treasury Management Practices – Schedules The Prudential Code for Capital Finance in Local Authorities (2017) Treasury Management in the Public Services Guidance Notes for Local Authorities (2018) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017) CIPFA statement on borrowing in advance of need and investments in commercial properties.
Appendices	A. Investments at 31 December 2019 B. Explanation of Prudential Indicators C. Economic Background D. Treasury Management Scheme of Delegation and Role of the Section 151 Officer

Discussion

1. Under the Local Government Act 2003 (the Act) and supporting regulations the Council is required to “have regard to” the Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 Prudential Code and the CIPFA 2017 Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

2. Council is required to approve an Annual Treasury Management Strategy Statement for borrowing, and an Investment Strategy which sets out the Council’s policies for managing its investments and for giving priority to security and liquidity of investments.

3. There is also a statutory duty to approve a Minimum Revenue Provision (MRP) Policy Statement for the year and this is set out in paragraphs 2.6 – 2.11 of this report.

4. CIPFA Code of Practice on Treasury Management requires the Council to maintain a Treasury Management Manual, which is reviewed annually. This manual is a record of internal procedures and operational guidance, as such it is not subject to approval by Members. The manual incorporates the following documentation relating to Treasury management:

   - Treasury Management Policy Statement. This is reviewed annually.

- Treasury Management Practices (TMP) – Main Principles. There are 12 practices which set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are reviewed annually.
- Treasury Management Practices – Schedules. These schedules set out the details of how the TMPs are put into effect by this Council. This document is revised annually to include the latest detailed procedural documents.
- Counterparty Lending List and lending criteria. The list used by the Council is provided by Link Asset Services (LAS), the Council's treasury advisors. A new list is provided weekly, and there are daily updates by email of any changes to ratings.

5. Other CIPFA requirements are:

- a Mid-Year Report and an Annual Report covering activities during the previous year;
- a Capital Strategy;
- delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. At this Council, delegation is to the Section 151 officer;
- delegation by the Council of the role of scrutiny of treasury management reports and strategy to a specific named body. For this Council the delegated body is the Audit and Standards Committee.

Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement 2020/21

1. INTRODUCTION

1.1 The Act and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The 2020/21 strategy for the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, LAS. The strategy covers:

- limits in force to mitigate the Council's treasury risk;
- Prudential Indicators;
- current treasury position;
- borrowing requirement;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- investment strategy;
- creditworthiness policy;
- policy on use of external service providers;
- Minimum Revenue Provision (MRP) statement;
- treasury management scheme of delegation and section 151 role;
- miscellaneous treasury issues.

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

- increases in interest charges and minimum revenue provision caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable for the foreseeable future.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2020/21 TO 2022/23

2.1 Capital expenditure plans are a key driver of treasury management activity. There are prudential indicators that focus on the Council's capital spending plans.

2.2 The first prudential indicator is a summary of the Council's capital expenditure plans, shown in Table 1.

Table 1: Capital Expenditure

Capital Expenditure	2018/19 £000 Actual	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate
Community Services	61	-	147	170	-
Environment	813	1,965	4,379	10,413	3,899
Housing General Fund	1,213	1,498	2,030	330	330
Strategy & Resources	526	1,573	666	500	3,651
General Fund	**2,613**	**5,036**	**7,222**	**11,413**	**7,880**
HRA	**8,593**	**10,010**	**18,250**	**14,008**	**10,164**
Total	**11,206**	**15,046**	**25,472**	**25,421**	**18,044**

2.3 Any shortfall of resources to finance the capital programme results in a borrowing need as set out in Table 2 below.

Table 2: Capital Financing

Capital Expenditure	2018/19 £000 Actual	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate
General Fund	2,613	5,036	7,222	11,413	7,880
HRA	8,593	10,010	18,250	14,008	10,164
Total	**11,206**	**15,046**	**25,472**	**25,421**	**18,044**
Financed by:					
Capital receipts	1,270	914	5,566	1,380	144
Capital grants	1,414	2,423	4,477	9,529	3,676
Capital reserves	620	1,713	1,322	570	0
Revenue	7,443	9,075	6,564	6,323	5,169
Net GF Financing Need for the year	**459**	**921**	**1,498**	**1,487**	**4,302**
Net HRA Financing Need for the year	**-**	**-**	**6,045**	**6,132**	**4,753**
Total Net Financing Need for the year	**459**	**921**	**7,543**	**7,619**	**9,055**

2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic capital expenditure which has not yet been financed from either revenue or capital resources. It is the measure of the Council's underlying borrowing need. Any newly planned unfinanced capital expenditure will increase the CFR.

2.5 The Council is asked to approve the CFR projections below that are in line with approved capital budgets:

Table 3: The Council's borrowing need (Capital Financing Requirement)

Capital Financing Requirement	2018/19 £000 Actual	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate
CFR - General Fund	15,726	14,617	15,080	15,387	19,071
CFR - HRA	95,742	94,842	99,969	104,963	108,355
Total CFR	111,468	109,459	115,049	120,350	127,426
Movement in CFR	-896	-2,009	5,590	5,301	7,076

Movement in CFR represented by					
Net financing need for the year	459	921	7,543	7,619	9,055
Less MRP / VRP and other financing movements	-1,355	-2,930	-1,953	-2,318	-1,979
Movement in CFR	-896	-2,009	5,590	5,301	7,076

Minimum Revenue Provision (MRP) Policy Statement 2020/21

2.6 The Council's MRP policy statement for 2020/21 is in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. MRP will be charged under Option 3 of the MHCLG guidance on General Fund borrowing. Option 3 is an MRP charge over a time period reasonably commensurate with the estimated useful life of a new asset.

2.7 There is no requirement to charge MRP to the HRA. However, following on from the introduction of Self-Financing the HRA is required to charge depreciation on its assets for financial years commencing April 2017. As a result, depreciation is a real cost to the HRA from financial year 2017/18. The regulations had previously allowed for the Major Repairs Allowance to be used as a proxy for depreciation until 31 March 2017.

2.8 The HRA 30 year financial plan now includes provision for the repayment of debt and therefore the HRA will make Voluntary Revenue Provision (VRP) when this is considered prudent. The HRA has planned VRP of £0.9m (19/20), £0.918m (20/21), £1.138m (21/22) and £1.361m (22/23).

2.9 The General Fund MRP liability began when the General Fund undertook borrowing during financial year 2016/17. Borrowing in respect of The Pulse fitness extension, the Multi-Service contract vehicles, premises and equipment, and more recently the Littlecombe Business Units has resulted in a requirement to charge the General Fund with MRP, as a prudent provision for the repayment of that debt.

2.10 The status of £2m of funding received from the HCA in respect of capital development works to Brimscombe Port is effectively a loan, although the agreement with HCA is being re-negotiated. As no expenditure related to that loan has yet been incurred no MRP is charged to make provision for repayment. When expenditure is incurred then MRP will begin.

2.11 In 2020-21 IFRS16 is introduced and this will have the effect of removing the current distinction between finance and operating leases. As a result, some currently leased assets will come on balance sheet, but the impact is very immaterial. There will be a greater impact in future from planned vehicle leases particularly by the HRA Repairs and Maintenance service. The policy will be for these leased assets to be depreciated by the same amount as the MRP element of annual lease payments. MRP is the capital element of the annual lease payments, excluding interest and service elements which are revenue costs.

Table 4: Core Funds and Expected Investments

Year end resources	2018/19 £m Actual	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
Fund balances / reserves	32.881	27.739	26.694	23.251	20.286
Capital receipts	9.184	5.670	2.962	2.274	2.852
Provisions	1.514	1.514	1.514	1.514	1.514
Other	0.647	0.500	0.500	0.500	0.500
Total Core funds	**44.226**	**35.423**	**31.670**	**27.539**	**25.152**
Working capital	2.400	0.500	0.500	0.500	0.500
Under (-) / over borrowing	-7.752	-5.742	-9.332	-10.633	-12.709
Expected investments	**38.874**	**30.181**	**22.838**	**17.406**	**12.943**

2.12 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed in Table 4 above are estimates of the year-end balances for each resource and total cash flow balances.

Affordability of capital plans prudential indicators

2.13 A prudential indicator is required to assess the affordability of capital expenditure plans. This indicator provides an estimate of the impact of capital investment plans on the Council's overall finances. The Council is asked to approve the cost of capital expenditure plans as a ratio of the net revenue stream indicator shown in table 5.

Table 5: Ratio of financing costs to net revenue stream

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Non-HRA	-2.50%	-2.50%	-3.60%	-4.10%	-3.59%
HRA	16.20%	15.33%	14.74%	16.49%	17.18%

3. BORROWING

3.1 Amongst the objectives of the treasury management function are ensuring that the Council's cash is managed in accordance with relevant professional codes and that sufficient cash is available at the right times to facilitate revenue and capital spending plans. Capital expenditure plans as set out in section 2 indicate if borrowing is required.

3.2 Table 6 shows the actual external debt (the treasury management operations), compared against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6: Gross Debt compared with Capital Financing Requirement (CFR)

	2018/19 £m Actual	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
External Debt					
Debt at 1 April	105.717	103.717	103.717	105.717	109.717
Expected change in debt	-2.000	-	2.000	4.000	5.000
Other long term liabilities at 1 Apr	-	-	-	-	-
Actual Gross Debt at 31 March	103.717	103.717	105.717	109.717	114.717
Capital Financing Requirement	111.468	109.459	115.049	120.350	127.426
Under / (-) over borrowing	7.751	5.742	9.332	10.633	12.709

Borrowing Strategy

3.3 Currently the Council has £103.717m of borrowing, compared with a Capital Financing Requirement (CFR) of £111.468m. This means that the capital borrowing need (the CFR), is greater than loan debt by £7.751m. The Council has taken no borrowing during the 2019/20 financial year.

3.4 There was a limit on HRA borrowing set by the Government in the Localism Act 2011 known as the HRA debt cap. This Council's HRA debt cap was £95.742m. This cap was the absolute limit for HRA borrowing under the Prudential Code, even if the Council considered further borrowing was affordable by the HRA. The debt cap was removed in 2018.

3.5 HRA capital plans now include borrowing of £6.045m commencing in 2020/21 and totalling £16.930m up to 2022/23. General Fund capital plans include borrowing of £11.184m up to 2023/24. The Section 151 officer will decide on the length and type of borrowing which may be required, as well as the optimum time to borrow in consultation with LAS, and take into account the latest projections for interest rates and other relevant factors including any benefits arising from internal borrowing.

3.6 At the end of 2020/21 there is an estimated internal borrowing position of £11.332m. Internal borrowing is currently beneficial because it reduces the financial impact of the differential between borrowing and investment interest rates. This position is projected as continuing through the period to 2022/23. Although, with the MTFP forecasting the running down of balances, and possible future changes in interest rate forecasts the Section 151 officer will keep this under review, and adjust the strategy as necessary in consultation with our Treasury advisers LAS.

3.7 Within the prudential indicators, there are 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 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not for revenue purposes.

3.8 The Section 151 officer reports that the Council complied with this prudential indicator in the current year and does not expect any breaches up to and including financial year 2022/23. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.9 There are two Treasury indicators set which limit external debt. The operational boundary is the limit that external debt should not normally exceed. If external debt were to exceed this figure then it should prompt an internal investigation to establish the reasons why the breach had occurred.

Table 7: Operational Boundary

Operational Boundary	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
Debt	127	129	133	138
Other Long Term Liabilities	-	-	-	-
Total	127	129	133	138

3.10 The Authorised Limit is set or revised by full Council, and must not be exceeded. It represents the level of debt that is unsustainable in the longer term. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control local government borrowing in total or for specific councils. This power has not been used to date.

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

Table 8: Authorised Limit for External Debt

Authorised Limit	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
Debt	135	137	141	143
Other Long Term Liabilities	-	-	-	-
Total	135	137	141	143

3.12 Link Asset Services (LAS) are treasury advisers to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the latest LAS forecast as at January 2020.

Table 9: Interest Rate Forecast

Month	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Dec-19	0.75	2.3	3.1	2.9
Mar-20	0.75	2.4	3.3	3.2
Jun-20	0.75	2.4	3.4	3.3
Sep-20	0.75	2.5	3.4	3.3
Dec-20	0.75	2.5	3.5	3.4
Mar-21	1	2.6	3.6	3.5
Jun-21	1	2.7	3.7	3.6
Sep-21	1	2.8	3.7	3.6
Dec-21	1	2.9	3.8	3.7
Mar-22	1	2.9	3.9	3.8
Jun-22	1.25	3	4	3.9
Sep-22	1.25	3.1	4	3.9
Dec-22	1.25	3.2	4.1	4
Mar-23	1.25	3.2	4.1	4

Treasury management limits on activity

3.13 The purpose of treasury management limits 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 limits are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The maturity structure of borrowing limits are set out in Table 10. The gross limits are set to control the Council’s exposure to large fixed rate sums falling due for refinancing at the same time. Upper and lower limits are set for each time period.

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

Table 10: Maturity structure of borrowing

Maturity structure of new fixed and variable rate borrowing during 2020/21	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Policy on borrowing in advance of need

3.15 The Council will not borrow more than, or in advance of, need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates as required by the Prudential Code (see paragraph 3.7). Decisions to borrow will seek to ensure value for money and security of funds.

3.16 The Council will consider borrowing up to 12 months ahead of capital spend:

- If such capital spend is considered very likely to occur within 12 months;
- treasury advisers demonstrate that rates are particularly low and likely to move higher within 12 months;
- treasury advisers evaluate a net saving after assessing cost of carry;
- a trigger rate(s) will be set by s151 officer in consultation with treasury advisers and treasury officers;
- borrowing may be conducted in parcels – eg £4m could be split into 4 x £1m or 2 x £2m;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been fully considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.17 The foregoing usual procedure will not prevent the Section 151 officer from forward borrowing to the fullest extent permitted by the Prudential Code, CFR for the current year plus the following two years, if extraordinary conditions arise in the short term to make such action in the interests of the authority.

Debt rescheduling

3.18 Now that the Council has £103.7m of debt, the Section 151 officer will keep under review opportunities for debt rescheduling. Debt rescheduling will be reported to Council at the next meeting after it occurs.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1 It is vital that the Council ensures that its investment balances are best utilised to help the overall financial position. Appendix A shows that there is over £50m invested. Improving average returns on the Council's investment portfolio will be a significant factor in improving the Council's financial sustainability. Investment strategy is to broaden the range of longer term investments, and during 2019/20 £10m of longer term investments were approved including £6m in property funds and £4m in multi-asset funds. A further £5m will be made available in 2020/21 for longer term investments

4.2 The Council will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any updates to that guidance such as the 2018 update, and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities in order are:

1) security of capital
2) liquidity of investments
3) rate of return

4.3 In accordance with the above, and in order to minimise the risk to investments with banks and building societies, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings mean for each agency. LAS's bank ratings service enables real-time monitoring of a bank's rating. Daily emails are sent to the Council to notify of any significant change to a bank rating, and are available on the Passport online portal.

4.4 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector. Assessment will also take account of information reflecting the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" (CDS). Other information sources used will include the financial press, share price and other such information about the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.5 The intention of the strategy is to provide security of investment whilst maximising returns and an awareness of risk, both of losing capital and also of eroding the value of funds through lower rates of return.

4.6 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council has been generally low in order to give priority to security of investments, however higher risk longer term investments are part of a balanced portfolio of investments up to a value of £15m, subject to proper due diligence by the Section 151 officer.

4.7 Borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

4.8 ‘Specified’ Investments which are investments with a high level of credit quality and maturities of up to 1 year and ‘Non-Specified’ Investments which are of a lower credit quality, may be for longer periods than 1 year and are more complex investment instruments which require proper due diligence before they are authorised for use during the financial year.

Table 11: Non-specified investment limit

Upper Limit for total principal sums invested for over 365 days	2018/19	2019/20	2020/21	2021/22	2022/23
Investments	£10m	£15m	£15m	£15m	£15m

Specified Investments

4.9 All specified investments will be sterling denominated, with maturities up to 1 year or less (including any forward deal time), subject to LAS’s colour coding rating system as set out in creditworthiness policy paragraphs 4.19 – 4.24.

Table 12: Specified Investments

Type of Investment	Minimum ‘High’ Credit Criteria	Max Sum** per institution / group
Debt Management Agency Deposit Facility	*	Unlimited
Term deposits – local authorities	*	£8m
Term deposits – banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	£8m
UK Government Gilts	*	£12m
Bonds issued by multilateral development banks	*	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	£8m
Treasury Bills	*	£12m
Certificates of deposits issued by banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	£8m
Money Market Funds (CNAV)	AAA	£6m per MMF & £12m total in MMFs
Money Market Funds (LVNAV)	AAA	£4m per MMF & £12m total in MMFs
Money Market Funds (VNAV)	AAA	£2m & £12m total in MMFs

Non-Specified Investments

4.10 All investments will be sterling denominated.

4.11 Investments will not necessarily be made in all categories but they are included to allow the Council to put together a balanced portfolio to mitigate risk.

4.12 There are some important considerations that need to be borne in mind when considering non-specified investment types:

- There is a need to commit to investing for the medium to longer term and so funds invested need to be sourced from balances that will not be called upon for cash flow purposes in the short term;
- Some investments have naturally fluctuating capital values, whilst still providing a revenue income stream;
- Fluctuation in the value of pooled investments has no impact upon the General Fund in the short term. This is because government has given local government a 5 year mitigation, commencing April 2018 and ending March 2023, under the accounting standard IFRS9 which affects the accounting for pooled investments. Without the mitigation, IFRS9 would have meant charging any fluctuations in capital values of investments against the Council's revenue expenditure each year;
- The Section 151 officer will subject any investment proposals to extensive due diligence using investment advisers as appropriate.

4.13 An investment selection process lead by LAS and involving a cross-party member advisory group to reflect member views in the decision making process was carried out in 2019 to select property fund and multi-asset fund investments. That process resulted in the selection and approval of investments in two property funds (Lothbury £4m and Hermes £2m), and two multi-asset funds (Royal London £3m and CCLA £1m). The multi-asset funds are under the Mixed Investment 0 – 35% Shares non-specified category, although it is accepted by the Section 151 officer that there could theoretically be up to 40% in equities in the CCLA fund due to their volatility constraints.

4.14 Investment decisions regarding non-specified investments include full consideration of the Council's declaration of a climate emergency. The recent selection process involved a number of processes not meeting the Council's requirements in this area and future investments placed will also be scrutinised in this fashion.

Table 13: Non-specified Investments - Maturities in excess of 1 year

Financial instrument / institution	Minimum Credit Criteria	Max. maturity period	Max. Sum**
Term deposits – banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Certificates of deposits issued by banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Property Funds	***	25 years	£12m
Short Dated Bond Funds	****	3 years	£3m
UK Gilts Funds	****	4 years	£3m
UK Index Linked Gilts Funds	****	4 years	£3m
£ Corporate Bond Funds	****	4 years	£3m
UK Equity & Bond Income Funds	****	10 years	£3m
Mixed Investments 0-35% Shares	****	3 years	£6m
Mixed Investments 20-60% Shares	****	4 years	£4m
Mixed investments 40-85% Shares	****	5 years	£3m
Corporate Bonds	AA-	3 years	£3m
UK Local Authorities	*	3 years	£8m
UK Government Gilts	*	3 years	£8m
Bonds issued by multilateral development banks	*	3 years	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	3 years	£8m

* Government institutions have the highest security, although they are not formally rated.

** A maximum sum refers to the combined total of specified and non-specified investments with a particular bank, or group if specified.

*** Any investment would be subject to an evaluation process and a report to Strategy and Resources Committee.

**** Due diligence Section 151 Officer

<u>Investment Definitions</u>

<u>Short Dated Bond Funds</u> which focus on shorter-term investments, typically with a maturity limit of 5 years. May invest in all forms of fixed income investments, including government and corporate debt. They are often limited to only using investment grade bonds (BBB-rated and higher), but some funds may make use of sub-investment grade bonds, or unrated issuance.

<u>UK Gilt Funds</u> which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK government securities (Gilts).

<u>UK Index Linked Gilt Funds</u> which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed index linked securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK Index Linked Gilts.

Sterling Corporate Bond Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs).
UK Equity & Bond Income Funds which invest at least 80% of their assets in the UK, between 20% and 80% in UK fixed interest securities and between 20% and 80% in UK equities. These funds aim to have a yield in excess of 120% of the FTSE All Share Index.
Mixed Investments 0 – 35% Share Funds in this sector are required to have a range of different investments. Up to 35% of the fund can be invested in company shares (equities). At least 45% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.
Mixed Investments 20 – 60% Shares Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.
Mixed Investments 40 – 85% Shares Funds in this sector are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.
Property Funds invest an average of at least 70% of their assets direct in UK property over 5 year rolling periods.

Investment Strategy

4.15 Cash flow forecast requirements and the outlook for short-term interest rates are important factors to consider when making investments. During 2019 base interest rate was 0.75%.

4.16 In 2020-21 the Council will continue to invest in the specified investment category for the longest permitted duration with quality counterparties to maximise return without compromising security, or liquidity. In particular instances the Section 151 Officer will authorise investments in the LAS blue category (see para 4.20) for a period of up to two years, which is currently longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted will vary if necessary in line with LAS advice subject to the Council's upper time limits.

Table 14: Investments maturing after the end of the current financial year.

Financial Institution	Amount £	Maturity	Rate
Standard Chartered	2,000,000	05/05/2020	0.920%
Hermes Property Fund	2,000,000	long term	variable

4.17 The Council now has approved £10m of investments in the Non-Specified category, and there is scope for the Section 151 officer to increase this by a further £5m subject to proper due diligence.

4.18 Bank Rate is currently forecast to continue on a rising trend with further 0.25% increases forecast for March 2021 and June 2022, this would take base rate up to 1.25% in June 2022.

4.19 The Council will primarily make short-dated deposits of up to a year with appropriately rated banks or UK local authorities rather than utilising call accounts or money market funds in order to maximise interest. Transaction costs will be taken into account in any investment decision for smaller sums, which means balances of up to £1m may be retained in lower interest rate accounts. This will be done to save transaction costs, where transaction costs would exceed interest earned.

4.20 There will be daily monitoring of investments by treasury staff and there will be first quarter, half year, third quarter and year end reports that detail investment activity and performance to Audit and Standards Committee and to Council.

Creditworthiness policy

4.21 This Council applies the creditworthiness service provided by LAS. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.22 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- **Yellow** 3 years
- **Dark pink** 3 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- **Light pink** 3 years for Ultra-Short Dated Bond Funds with credit score of 1.5
- **Purple** 2 years
- **Blue** 1 year (only applies to nationalised or semi nationalised UK Banks)
- **Orange** 1 year
- **Red** 6 months
- **Green** 100 days
- **No colour** not to be used

4.23 This creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue impact to just one agency's ratings.

4.24 Typically the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of short term rating F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings, but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.25 All credit ratings will be monitored prior to making an investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the LAS creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via LAS's Passport website. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

4.26 The Council will not place sole reliance on the use of this external service. In addition this Council will use market data and market information, and information on external support for banks to help support its decision making process.

Country limits

4.27 The Council will only invest in the UK and countries with a sovereign rating of AA- or higher. The following countries currently have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in LAS credit worthiness service.

AAA	**AA+**	**AA**	**AA-**
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	USA	France	Qatar
Denmark	Hong Kong		
Germany	UK		
Luxemburg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

5. MISCELLANEOUS TREASURY ISSUES

Use of external service providers

5.1 Link Asset Services (LAS), are the Council's treasury management advisers. However, responsibility for treasury management decisions remains with the Council at all times, therefore undue reliance will not be placed upon our external treasury management advisers. The current contract has an end date of 30 September 2020.

Member Training

5.2 The CIPFA Code requires the Section 151 officer to arrange the provision of adequate training for members. Member training will be scheduled for the newly appointed Audit & Standards Committee after the elections in May 2020.