

TREASURY MANAGEMENT STRATEGY 2017/18

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 low risk counterparties or instruments commensurate with the Council's low 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 plans. These capital plans provide a guide to the investment reduction of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

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 polices, 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 the treasury strategy is meeting the strategy or whether any policies require revision.

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 Treasury Management Panel.

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) strategy.

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 increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by providing training sessions for the Treasury Management Panel members on the subject of Treasury Management.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Capita Asset Services, as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

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

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

2.1 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. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2015/16 Actual £000	2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
General Fund	17,897	2,954	22,908	938	938
HRA	6,949	11,613	10,892	10,140	7,804
Total	24,846	14,567	33,800	11,078	8,742

Other long term liabilities. The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments. The authority has no finance leasing arrangements at present.

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.

Capital expenditure	2015/16 Actual £000	2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Total	24,846	14,567	33,800	11,078	8,742
Financed by:					
Capital receipts	4,490	4,178	6,725	1,214	939
Capital grants	393	560	734	500	500
Capital reserves	6,979	7,073	6,169	5,852	6,016
3 rd Party Contributions	234	772	960	400	300
Revenue	0	1,984	2,831	2,969	844
Borrowing need for the year	12,750	0	16,381	143	143

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. PFI schemes, 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 is asked to approve the CFR projections below:

£000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
Total CFR	85,416	83,660	98,698	96,725	94,887
Movement in CFR	11,545	(1,756)	15,038	(1,973)	(1,838)

Movement in CFR represented by					
Net financing need for the year (above)	24,846	14,567	33,800	11,078	8,742
Less MRP/VRP and other financing movements	(13,301)	(16,323)	(18,762)	(13,051)	(10,580)
Movement in CFR	11,545	(1,756)	15,038	(1,973)	(1,838)

2.3 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:

2.4 Ratio of financing costs to net revenue stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. It would not be prudent for borrowing costs to be a significant proportion of net revenue either now or in the future. By estimating the ratio for at least the next three years the trend in the cost of capital (borrowing costs net of interest and investment income) as a proportion of revenue income can be seen.

%	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	2.77	4.02	3.93	3.88	3.91
HRA	7.77	7.91	8.10	8.20	8.31
Total	5.61	6.35	5.99	6.41	6.45

2.5 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.

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

£	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	1.14	0.43	1.11	0.06	0.06

For average weekly housing rents

£	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Housing Rents	NIL	NIL	NIL	NIL	NIL

Decisions on annual rent increases are subject to rent restructuring guidelines set by Central Government. As a consequence the Government have indicated that rent levels will decrease by 1% over the next three years. This method has been used to form part of the 30 year HRA Business Plan.

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 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 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	58,925	65,360	64,830	79,686	78,828
Expected change in Debt	6,434	3,170	14,856	(858)	(974)
Actual debt at 31 March	65,360	64,830	79,686	78,828	77,854
The Capital Financing Requirement	85,416	83,660	98,698	96,725	94,887
Under / (over) borrowing	20,056	18,830	19,012	17,897	17,033

Total investments at 31 March					
Investments	20,542	22,660	21,450	20,450	19,450
Investment change	N/A	2,118	(1,210)	(1,000)	(1,000)

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within set limits. One of these is that the Council needs to ensure that its total debt, net of any investments, 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 (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals 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. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	107	112	110	108

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.

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.

The Council is asked to approve the following authorised limit:

Authorised Limit £'000	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	117	122	120	118

3.3 Prospects for interest rates

The Council has appointed Capita 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 the Capita 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%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.

- Major national polls:

- Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.

- Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.

- Dutch general election 15.3.17;

- French presidential election April/May 2017;

- French National Assembly election June 2017;

- German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats

- Weak capitalisation of some European banks, especially Italian.

- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.

- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast , caution will be adopted with the 2017/18 treasury operations. The Section 151 Officer will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances.

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Treasury management limits on activity

- The Council must set both upper and lower limits with respect to the maturity structure of borrowing for the following financial year. This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. Therefore the aim should be a relatively even spread of debt repayment dates.
- It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

	Upper Limit %	Lower Limit %
Under 12 months	50	0
12 months and within 24 months	50	0
24 months and within 5 years	100	0
5 years and within 10 years	100	0
10 years and within 20 years	100	0
20 years and within 30 years	100	0
30 years and within 40 years	100	0
40 years and within 50 years	100	0
50 years and above	100	0

3.5 Current Portfolio Position

The Council's treasury debt portfolio position at 31st December 2016 comprised:

	Principal £m	Ave. rate %
Fixed rate borrowing	PWLB 49.20	3.66
	Market <u>15.90</u>	<u>4.00</u>
TOTAL DEBT	<u>£65.10m</u>	3.74
TOTAL INVESTMENTS	26.90m	0.63

3.6 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.

3.7 Debt rescheduling

The Council will continue to maintain a flexible policy for debt rescheduling. As short term borrowing rates will be considerably cheaper than longer 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 premium repayment. The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the ratio of fixed to variable debt
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

Any rescheduling activity will be undertaken following the rationale within the Council's Treasury Management Strategy. The Section 151 Officer will agree in advance with Capita on the strategy and framework within which debt will be repaid/rescheduled if opportunities arise. Thereafter the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by Capita and discussed with the Council's treasury officers.

All rescheduling activity will comply with the accounting requirements of the local authority Code of Practice and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).

All rescheduling and any new long term borrowing undertaken will be reported to the Treasury Management Panel at the meeting following its action.

3.8 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This council could make use of this new source of borrowing as and when required.

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 2011 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 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.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and 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. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and 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. To this end the

Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed below in paragraph 4.2 under the ‘specified’ and ‘non-specified’ investments categories as well as the counterparty limits.

4.2 Specified and Non- Specified Investments

Specified Investments are investments offering high security and high liquidity. The investments will be sterling denominated with maturities up to a revised maximum of one year and meet the minimum ‘high’ credit rating criteria where applicable. Instruments identified for use in the financial year are listed in table below under the ‘specified’ and ‘non-specified’ investments categories.

SPECIFIED INVESTMENTS

All ‘Specified and Non Specified Investments’ listed below must be sterling-denominated.

The types of investments that will be used by the Council

Investment	Max Sum per institution/group	Maximum period
Debt Management Agency Deposit Facility* (DMADF) <ul style="list-style-type: none"> this facility is at present available for investments up to 6 months 	UNLIMITED	6 months
UK Government Gilts/ Bonds	£2m	2 years
UK Government Treasury Bills	UNLIMITED	1 year
Term deposits with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	£7m	Unlimited
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits (UK & Non-UK)	£7m	2 years

Repos/Reverse Repo through custodian King & Shaxson	£5m	1 year
Money Market Funds with UK/Ireland/Luxembourg domiciled	£2m per fund	Liquid
Enhanced Money Market funds UK/Ireland/Luxembourg domiciled	£2m per fund	Liquid - 3months - 5 years
Corporate Bonds held in a broker's nominee account (King & Shaxson Ltd)	£2m	2 years to maturity
T-Bills issued by the DMO (Government)	UNLIMITED	1 year
Certificates of deposit (CD's) issued by banks and building societies covered by UK Government (explicit) guarantee	£7m	2 years

Non-specified investments are of greater potential risk and cover deposit periods over one year.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The types of investments that may be used by the Council, and whether they are specified or non-specified are as follows:

Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
UK Government Gilts & Bonds	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x
Corporate Bonds	✓	✓
*Repo/reverse repo – fixed term deposits with banks and other financial institutions	✓	x
Property Funds	x	✓
AAA rated Money Market Funds /Enhanced Funds	✓	✓
Other Money Market and Collective Investment Schemes	✓	✓

Equities – One off for an App investment	x	✓
Debt Management Account Deposit Facility	✓	x

* A repo is the name for a sale and repurchase agreement; a contract in which a party (cash borrower) sells a security to another, agreeing to buy it back at a later date at a specified price. A reverse repo is purely the cash lenders side of the transaction; lending money to an organisation and receiving high quality collateral against it. As a form of collateralised lending this is based on the GMRA (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows

- Index linked gilts
- Conventional gilts
- UK Treasury bills
- DBV (Delivery by Value)
- Corporate bonds

4.3 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. 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.

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 for which 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 5 years *
- Dark Pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light Pink 5 years for Enhanced money market funds (EMMFs) with a 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 3 months
- No colour not to be used

The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating 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. UK part nationalised banks such as National Westminster Bank and Royal Bank of Scotland are currently rated as BBB+ but remain on the list as they have the government support at present. However once the majority of these banks shares are sold they will be colour coded as an unsupported bank in line all the other banks, and if the rating falls below A-, will be removed from the lending list.

All credit ratings will be monitored weekly and upon any adhoc changes. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' 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 benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

4.4 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of **AA-** from Fitch with a minimum institute rating of A- or equivalent . The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.5 Council's Banker

The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Council's intention that even if the credit rating of Lloyds Bank falls below the minimum criteria A the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

4.6 Annual Minimum Revenue Provision (MRP) Statement

The annual MRP Statement is disclosed in Appendix 4.

4.7 Balanced Budget Requirement

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

4.8 Reporting on the Treasury Outturn

The Section 151 Officer will report to Council on its treasury management activities and performance against the strategy at least twice a year, one at mid-year and a year-end review at closedown time.

The Treasury Management Panel will be responsible for the scrutiny of treasury management activity and practices.

4.9 Other Items

4.10 Training

In CIPFA's Code for Treasury Management, it requires the Section 151 Officer to ensure that all appropriate staff and members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Training requirements will be identified and any shortfalls will be met by Capita or other organisations.

4.11 Treasury Advisors

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external advisors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The Council appointed Capita Asset Services Ltd as its external advisor in December 2012 which was extended to 30 November 2017. They provide us with information, advice and assistance in all areas of treasury. The Council aims

to have a close working relationship with Capita and will be in contact with their advisors on a regular basis (weekly) and daily if necessary. A detailed schedule of services is listed within the contract. The Council recognises that responsibility for treasury management decisions remains with the Council at all times.

In the coming months of 2017, the Council intends to re-tender the Treasury Advice Contract in partnership with the GO authorities and Gloucestershire County Council.