TREASURY MANAGEMENT STRATEGY 2017/18

Finance Advisory Committee – 31 January 2017

Report of the:	Chief Finance Officer
Status:	For Decision
Also considered by:	Cabinet – 9 February 2017
	Council – 21 February 2017
Key Decision:	No

Executive Summary: The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the 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.

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.

This report supports the Key Aim of efficient management of the Council's resources.

Portfolio Holder Cllr. John Scholey

Contact Officer Roy Parsons, Principal Accountant, Ext. 7204

Recommendation to Finance Advisory Committee: That the recommendation to Cabinet be approved.

Recommendation to Cabinet: That, subject to the views of the Finance Advisory Committee, Cabinet recommend that Council approve the Treasury Management Strategy for 2017/18.

Recommendation to Council: That the Treasury Management Strategy for 2017/18 be approved.

Reason for recommendations: To ensure that an appropriate and effective annual Treasury Management Strategy is drawn up in advance of the forthcoming financial year, which meets both legislative and best practice requirements.

Background

1 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.

2 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 borrowing need 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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

Introduction

<u>Reporting requirements</u>

4 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. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance Advisory Committee.

5 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).

6 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.

7 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.

Treasury Management Strategy for 2017/18

8 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 will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy;
- creditworthiness policy; and
- policy on the use of external service providers.

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

Training

10 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. Training was last undertaken in 2010 and further training will be arranged as required.

11 The training needs of treasury management officers are reviewed periodically.

Treasury management consultants

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

13 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.

14 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 subjected to review.

Capital Issues

The Capital Prudential Indicators 2017/18 – 2019/20

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

Capital Expenditure

16 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:

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Capital Expenditure	***	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

17 Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

18 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 need (borrowing).

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Capital Expenditure	***	***	***	***	***
Financed by:					
Capital receipts	***	***	***	***	***
Capital grants	***	***	***	***	***
Capital reserves	***	***	***	***	***
Revenue	***	***	***	***	***
Net financing need for the year	*******	*******	*******	*******	*******

*** Figures to be added to Cabinet report when Capital Programme is completed

<u>The Council's Borrowing Need (the Capital Financing Requirement)</u>

19 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.

20 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 asset's life.

21 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 £0.2m of such schemes within the CFR.

22 The Council is asked to approve the CFR projections below:

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Capital Financing Requirement					
Total CFR	***	***	***	***	***
Movement in CFR	***	***	***	***	***

Movement in CFR represented by:					
Net financing need for the year (above)	***	***	***	***	***
Less MRP/VRP and other financing movements	***	***	***	***	***
Movement in CFR	***	***	***	***	***

Note:- The MRP / VRP includes finance lease annual principal payments

*** Figures to be added to Cabinet report when Capital Programme is completed

Minimum Revenue Provision (MRP) Policy Statement

23 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).

24 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. The Council is recommended to approve the following MRP Statement:

25 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on CFR.

26 This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

27 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases), the MRP policy will be either:

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction); or

- Depreciation method – MRP will follow standard depreciation accounting procedures.

These options provide for a reduction in the borrowing need over approximately the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

28 It is proposed to use the 'Asset life method' in the calculation of the Council's MRP. In choosing to do so, there are two options available:

- Equal instalments – where the principal repayment made is the same in each year; or

- Annuity – where the principal repayments increase over the life of the asset.

29 Of the two options, the annuity method seems to be the most suitable for the Council at this time, particularly for assets that generate income. It matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. it reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). Interest will be greater at the beginning of the loan, at which time all of the principal is outstanding, so the amount of principal repayment is lower in the initial years. The schedule of charges produced by the annuity method results in a consistent charge of principal and interest over an asset's life, taking into account the real value of the annual charges when they fall due.

30 MRP commences in the financial year following that in which the expenditure is incurred, or in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.

<u>Core Funds and Expected Investment Balances</u>

31 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 on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below

are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Fund balances / reserves	***	***	***	***	***
Capital receipts	***	***	***	***	***
Provisions	***	***	***	***	***
Other	***	***	***	***	***
Total core funds	*******	*******	*******	*******	*******
Working capital*	***	***	***	***	***
Under/over borrowing	***	***	***	***	***
Expected investments	*******	*******	*******	*******	*******

*Working capital balances shown are estimated year end; these may be higher mid year

*** Figures to be added to Cabinet report when Capital Programme is completed

Affordability Prudential Indicators

32 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:

Ratio of Financing Costs to Net Revenue Stream

33 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.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	***	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

The estimates of financing costs include current commitments and the proposals in the budget report.

Incremental Impact of Capital Investment Decisions on Council Tax.

34 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.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax band D	***	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

Treasury Management Issues

Borrowing

35 The capital expenditure plans set out above 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 approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

36 The Council's treasury portfolio position at 31 December 2016 appears in Appendix A.

37 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 or CFR), highlighting any over or under borrowing.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	***	***	***	***	***
Expected change in Debt	***	***	***	***	***
Other long-term liabilities (OLTL)	***	***	***	***	***
Expected change in OLTL	***	***	***	***	***
Actual gross Debt at 31 March	*******	*******	*******	*******	*******
The Capital Financing Requirement (CFR)	*******	*******	*******	*******	*******
Under / (over) borrowing	*******	*******	*******	*******	*******

*** Figures to be added to Cabinet report when Capital Programme is completed

38 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.

39 The Chief Finance 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.

40 The above mentioned portfolio position shows that, at present, this authority does not borrow. This has been the position for a number of years. However, this may change in future and hence the strategy needs to deal with such a situation, should it arise.

Treasury indicators which will limit the treasury risk and activities of the Council

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

41 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	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Debt	***	***	***	***
Other long term liabilities	***	***	***	***
Total	*******	*******	*******	*******

*** Figures to be added to Cabinet report when Capital Programme is completed

The Authorised Limit for external debt

42 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.

43 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.

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

Authorised limit	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Debt	***	***	***	***
Other long term liabilities	***	***	***	***
Total	*******	*******	*******	*******

*** Figures to be added to Cabinet report when Capital Programme is completed

Prospects for Interest Rates

45 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. Appendix B draws together a number of current City forecasts for short term and longer fixed interest rates. Appendix C contains Capita Asset Services' latest economic background report.

Borrowing Strategy

46 At present, there are no capital borrowings. However, should this change during 2017/18, the Council would look to maintain an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement or CFR) 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 considered a prudent one as investment returns are low and counterparty risk is relatively high.

47 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Chief Finance Officer will monitor interest rates in 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.

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

Treasury Management Limits on Activity

49 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 and/or 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.

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

	2017/18 %	2018/19 %	2019/20 %
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100	100	100
Limits on variable interest rates based on net debt	50	50	50
Maturity structure of fixed interest rate borrowing 2017/18			

	Lower	Upper
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100
Maturity structure of variable interest rate borrowing 2016/17		
	Lower	**Upper**
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100

As borrowing is yet to be undertaken, the maturity structures have all been set with an upper limit of 100%. If and when this happens, these limits can be refined in light of actual borrowing patterns.

Policy on borrowing in advance of need

51 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.

52 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.

Municipal Bonds Agency

53 It is likely that the Municipal Bonds 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). If the Council does borrow in the future it intends to make use of this new source of funding as and when appropriate.

Annual Investment Strategy

Investment Policy

54 The Council's investment policy has regard to the Department of Communities and Local Government (CLG) 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.

55 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.

56 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" (CDS) and overlay that information on top of the credit ratings.

57 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.

58 Investment instruments identified for use in the financial year are listed in Appendix D under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set below.

Creditworthiness Policy

59 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and

Standard and Poors. 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.

60 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:

- 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 as individually specified in the Strategy

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
A. Banks - UK	Purple	£7m	2 years
B. Banks - UK	Orange	£7m	1 year
C. Banks - UK (part nationalised)	Blue	£10m	1 year
D. Banks - UK	Red	£7m	6 months
E. Banks - UK	Green	£7m	100 days
F. Banks - UK	No Colour	Not to be used	
G. Banks – non UK	All Colours	£5m	Dependent on Colour

H. Council's banker (if not meeting Banks A. to G.)	N/A	£7m	1 day
I. Other institutions limit	All Colours	£5m	Dependent on Colour
J. Other institutions limit	No Colour	£4m	100 days
K. DMADF	AAA	£5m	6 months
L. Local authorities	N/A	£5m	2 years
	Fund rating	**Money and/or % Limit**	**Time Limit**
M. Money market funds	AAA	£5m (per fund)	Liquid
N. Enhanced money market funds	AAA	£5m (per fund)	Liquid

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

62 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 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.

63 All credit ratings will be monitored regularly. 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 against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

64 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.

Country limits

65 The Council has determined that it will only use approved counterparties from countries that have a minimum sovereign credit rating of AA- from Fitch and where those countries have been approved by the Finance Advisory Committee. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other creditworthiness issues

66 The Council's current investment policy further limits the one proposed by Capita Asset Services as follows:-

a. Maximum investment period of two years. Part nationalised UK banks also have a two year duration limit.

b. Investments in any single institution or institutions within a group of companies are limited to 25% of the total fund, at the time the investment is placed, except for Lloyds Banking Group plc and Royal Bank of Scotland Group plc where the limit is 30%.

c. Total investments in any one foreign country are limited to 15% of the total fund, but UK-based institutions to be used as first preference. The only country, other than the UK, approved for investment is Sweden.

d. Investments are limited to £6m per bank excluding call accounts and £7m including call accounts except for:-

   (i) Lloyds Banking Group plc and Royal Bank of Scotland Group plc, where the limits are £10m for each with no distinction between fixed deposits and call accounts; and

   (ii) Svenska Handelsbanken AB, where the limit is £5m with no distinction between fixed deposits and call accounts.

e. If the Council's own banker, Barclays, falls below Capita Asset Services' minimum credit rating requirements, it will nevertheless continue to be used, although balances will be minimised in both monetary size and duration.

f. Building Societies with assets in excess of £9bn are included in the lending list with a maximum investment limit of £4m each and a maximum duration of 100 days. If a Building Society meets Capita Asset Services' minimum credit rating requirements, the investment limit is increased to £5m with a maximum investment duration of two years.

g. Investments in Money Market Funds (MMFs) and Enhanced Money Market Funds (EMMFs) are limited to a combined maximum of £5m per provider.

Investment Strategy

67 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

68 Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by 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%

69 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.50%
- 2023/24 1.75%
- Later years 2.75%

70 The overall balance of risks to these forecasts is probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank rate could be pushed back. On the other hand, should the pace of growth quicken and/or forecasts for increases in inflation rise, there could be an upside risk (i.e. Bank Rate increases occur earlier and/or at a quiker pace).

71 The Council is asked to approve the following treasury indicator and limit. These limits are set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment. They are based on the availability of funds after each year-end.

Maximum principal sums invested > 364 days	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Principal sums invested > 364 days	10,000	10,000	10,000

72 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

<u>Investment risk benchmarking</u>

73 The Council will use an investment benchmark to assess the performance of its portfolio. The benchmarks will be 7 day and 3 month LIBID uncompounded.

<u>End of year investment report</u>

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

<u>Scheme of delegation</u>

75 The guidance notes accompanying the revised Code also require that a statement of the Council's scheme of delegation in relation to treasury management is produced as part of the Annual Investment Strategy. This appears at Appendix F.

<u>Role of the Section 151 officer</u>

76 As with the scheme of delegation mentioned in the previous paragraph, a statement of the role of the Section 151 officer is also required. This appears at Appendix G.

Key Implications

<u>Financial</u>

77 The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.

Legal Implications and Risk Assessment Statement

78 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

79 This annual investment strategy report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009.

80 Treasury management has two main risks :

- Fluctuations in interest rates can result in a reduction in income from investments; and

- A counterparty to which the Council has lent money fails to repay the loan at the required time.

Consideration of risk is integral in our approach to treasury management.

81 The movement in previous years towards having a restricted lending list of better quality institutions but higher individual limits with those institutions has reduced the chances of a default. But if a default did occur, the potential loss would be greater.

82 These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

Equality Assessment

83 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

84 The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances.

85 In line with the revised CIPFA Code of Practice on Treasury Management, the Annual Treasury Strategy must be considered by Council and this is planned for its meeting on 21 February 2017. Given the current uncertainties in the banking sector and financial markets, the Council may need to consider amending its strategy during the year.

Appendices:	Appendix A – Investment portfolio at 31 December 2016
	Appendix B – Prospects for interest rates
	Appendix C – Economic background report
	Appendix D – Specified and non-specified investments
	Appendix E – Approved countries for investments
	Appendix F – Treasury management scheme of delegation
	Appendix G – The treasury management role of the S151 officer
Background Papers:	None

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