

## **Appendix A Treasury Management Strategy 2015/16**

### **1. Treasury Management Policy Statement**

- 1.1 The Council defines its treasury management activities as: *“The management of the 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 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 1.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 1.4 This Strategy has been prepared in accordance with the CIPFA Treasury Management Code 2011. This requires the Council to approve the Treasury Management Strategy annually and to produce a mid-year report. In addition, Members in both Executive and Scrutiny functions receive monitoring reports and regular reviews. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.
- 1.5 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy to set out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

### **2. Annual Investment Strategy**

- 2.1 The Council is required to prepare an Annual Investment Strategy. The Council has regard to the Department of Communities and Local Government’s (CLG) Guidance on Local Government Investments (“the Guidance”) issued in March 2004, any revisions to that guidance, the Audit Commission’s report on Icelandic investments and the 2011 CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities are: -
  - (a) the security of capital
  - (b) the liquidity of its investments.
- 2.2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- 2.3 The borrowing of monies purely to invest or on-lend in order to make a return is unlawful and this Council will not engage in such activities.

- 2.4 The Council only invests in counterparties with a high credit quality in the UK or other countries meeting minimum AA- sovereign rating. Specified and Non-Specified Investment criteria reflects Capita's suggested methodology to assess short and long term ratings for a counterparty. The proposed minimum credit quality criteria for Specified and Non-Specified Investment, together with Treasury Limits are detailed below (a summary of all investment criteria and limits, together with procedures, is provided in Attachment Three):

### **3 Creditworthiness policy**

- 3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. Based on this this main principle, the Council will ensure that:
- It maintains a policy covering the categories of financial instruments it will invest in, maximum investment duration, criteria for choosing counterparties with adequate security, and monitoring their security.
  - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators of the maximum principal sums invested in excess of 364 days.
- 3.2 The Assistant Director (Finance) will maintain a counterparty list in compliance with the criteria in the Strategy for Specified and Non-Specified Investment and will revise the criteria and submit them to Council for approval as necessary.
- 3.3 In determining the credit quality, the Council uses the Fitch credit ratings, together with Moody and Standard & Poor's equivalent where rated. Not all counterparties are rated by all three agencies and the Council will use available ratings.
- 3.4 The Council also uses the creditworthiness service (Colour Coding System) provided by Capita Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach including the credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties. Additional market information is applied to compare the relative security of differing investment counterparties, such as:
- credit watches and credit outlooks from credit rating agencies
  - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
  - sovereign ratings to select counterparties from only the most creditworthy countries
- 3.5 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. It is a service which the Council would not be able to replicate using in house resources

3.6 Credit ratings will be monitored whenever an investment is to be made, using the most recent information. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, no further new investment will be made with that counterparty until they meet the Council's criteria again.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list. However, investments already with the counterparty are likely to remain invested as it would be very expensive and potentially impossible to have the funds returned prematurely. However, the Chief Finance Officer will review the risk and penalties involved in order to determine whether an investment should be returned.

3.8 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data including information on government support for banks and the credit ratings of that government support.

3.9 The Council receives updates from Capita on future changes to Money Market Funds (MMF) that might affect the liquidity or risk of the fund. The change is forecast to take place in 2016. The Council is likely to change its approach to the use of MMF should funds should liquidity or risk be adversely affected.

#### 4 Country limits

4.1 The Council has determined that it will only use approved counterparties from UK or selected countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This is part of the criteria used to produce the Council's Counterparty List.

#### 5 Current Investments and Interest Rate Forecast

5.1 At the end of December 2014 the Council had £47.450Million deposit with the institutions.

5.2 **Interest Rate Forecast** - The Bank of England base rate remains at 0.5% as at 31 December 2014. The Council's treasury advisor's, forecasts that rates will rise to 0.75% by the end of December 2015 and continue to rise steadily to 2.0% by the end of March 2018. The Investment Rates provided by the Capita Asset Services is as below:

Investment Return	
One Month	0.40%
Three Months	0.50%
Six Months	0.65%
One Year	0.90%

Source: Capital Daily Bulletin 8/1/2015

The Council has budgeted for investment returns of 0.48% in 2014/15 and is budgeting for returns of 0.63% in 2015/16 in accordance with the forecast increase in the Bank Base Rate.

## **6 Borrowing Strategy and Policy on Borrowing in Advance of Need**

- 6.1 The Operational Boundary and Authorised Borrowing Limits must be approved as part of the Prudential Code Indicators before the start of each financial year. The revised 2014/15 limits and proposed limits for 2015/16 are:-

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Operational Boundary	225,894	219,740
Authorised Limit	234,894	228,740

- 6.2 Based on the capital programme 2015/16 (January 2015 Update) resourcing projections, the Council has no new borrowing requirement in 2015/16.
- 6.3 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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
- 6.4 In determining whether borrowing will be undertaken in advance of need the Council will;
- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
  - ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been 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.

## **7 End of year investment report**

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

## **8 Policy on the use of external service providers**

- 8.1 In July 2012, the Council tendered for its treasury management advisors. As a result of which, Capita (formerly Sector) Treasury Services was reappointed on a three year contract with an option to extend by one year. The new contract commenced on 26 October 2012.
- 8.2 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.
- 8.3 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.

## 9 Scheme of Delegation and Role of Section 151 officer

9.1 The Council has the role of:

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

9.2 The Audit Committee has the role of reviewing the policy and procedures and making recommendations to Council

9.3 The Section 151 Officer has the role of:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

9.4 Reporting arrangement to the Council and the Audit Committee is as below:

Area of Responsibility	Council Committee	Frequency
Treasury Management Policy Statement (revised)	Council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / Minimum Revenue Provision (MRP) policy	Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid-year report	Council	Annually before the end of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Council	As required.

Area of Responsibility	Council Committee	Frequency
Annual Treasury Outturn Report	Council	Annually by 30 <sup>th</sup> November
Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of Treasury Management performance	Audit Committee	Quarterly (General Fund updates)

Attachment One: Minimum Revenue Provision Policy (January 2015 Update)

Attachment Two: Prudential Indicators (January 2015 Update)

Attachment Three: Specified & Non-Specified Investment Criteria (January 2015 Update)

Attachment Four: Approved Countries for Investment (January 2015 Update)