Appendix D

COPELAND BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS), MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2020/21

INTRODUCTION

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 any 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 could involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, 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."

Copeland's Portfolio and Investment Strategy

Copeland Borough Council currently holds an average investment portfolio of approximately £40 million. The majority of this money is working capital or held in a combination of provisions and revenue and capital reserves and is earmarked for various purposes. However, the range of funds can be much higher at the start of the financial year depending on cash flow movements and the receipt of an advance payment of a full year business rates by the Council's largest ratepayer (approximately £30 million). Most of this large cash balance at the start of the year does not belong to the Council. It is invested in a range of maturities to facilitate the requirement to pay over regular amounts of the advance funding to the Government and County Council in accordance with the agreed schedule of payments.

The main principle governing the Council's investment criteria is the security and liquidity of its investments, with yield (or return) then being considered. The Council's counterparty list is derived from the minimum credit ratings set in conjunction with our Treasury Management Advisors, Link Asset Services. This list limits the Council to use the counterparties for investment that are at or above the minimum criteria approved. Should the criteria be set too low then the Council would be open to risk; if set too high it could make it difficult to place funds. The TMSS sets out the overall policy parameters, with officers using their judgement within the parameters set as required.

Wherever possible, and within the security limits, the Council maximises interest by fixed term investments with the banks for up to a year and up to the maximum limits set out in the strategy. At peak cash inflow times the Council has c. £55 million to invest. The Council aims for diversification through the use of other counterparties who meet our minimum criteria and through the use of pooled investment vehicles, Money Market Funds. These are highly secure, liquid institutions with the yield being generally lower because of the flexibility of instant access to funds. This, in turn reduces the average investment interest rate achieved compared to longer term fixed rate deposits. The objective continues to be that we achieve a rate above the 7 Day LIBID (London Interbank Bid Rate – the rate at which banks bid to borrow) as a benchmark.

Members should note that the limits that are presented throughout this report have been discussed with the Council's treasury management advisors and are deemed acceptable for the current risk appetite.

Reporting Requirements

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

Treasury Management reporting

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

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and 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).

b. A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report – This is a backward looking review document and 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 2020/21

The strategy for 2020/21 covers two main areas:

Capital issues

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

Treasury management issues

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

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

Training

The CIPFA Code requires the responsible officer (the S151 Officer) to ensure that members with responsibility for treasury management receive adequate training in treasury management.

Treasury Management Consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors but recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the external service providers.

The Council 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.

THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

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

Capital expenditure

The first prudential indicator is a summary of the Council's draft capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, the full details of which are elsewhere on the agenda for consideration. The following table 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 £000's	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total in the capital programme	**1,736**	**1,955**	**13,425**	**6,756**	**5,000**
Financed by:					
Capital receipts	699	1,200	2,407	0	0
Capital grants	1,037	657	3,407	1,756	0
Revenue	0	98	611	0	0
Borrowing (net of MRP)	0	98	7,000	5,000	5,000
Total	**1,736**	**1,953**	**13,425**	**6,756**	**5,000**

The above financing need excludes other long term liabilities, such as Public Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments.

The Council's borrowing need (the Capital Financing Requirement - CFR)

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 which has not immediately been paid for will increase the CFR.

In any event, the CFR does not increase indefinitely as it is required to be paid off over time from the annaul Minimum Revenue Provision. MRP is a statutory annual revenue charge which reduces the borrowing need broadly in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). The main element of the Council's CFR is the PFI scheme. 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 borrow separately.

£000's	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
Total CFR	7,343	3,000	10,000	15,000	20,000
Movement in CFR	-55	-4,343*	7,000	5,000	5,000
Movement in CFR represented by					
Net financing need for the year (above)	534	-4,143	7,400	5,600	5,800
Less MRP and other financing movements	-589	-200	-400	-600	-800
Movement in CFR	-55	-4,343	7,000	5,000	5,000

**Assumed purchase of the PFI scheme results in a reduction in the finance liabilities*
***Note the MRP will include PFI/finance lease annual principal payments*

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Fund balances / reserves	15.05	11.92	8.60	7.49	7.18
Capital receipts	4.98	3.78	1.37	1.37	1.37
Provisions	1.56	1.56	1.56	1.56	1.56
Other					
Total core funds	**21.59**	**17.26**	**11.53**	**10.42**	**10.11**
(Under) / Over borrowing	2.64	2.64	-5.00	-10.00	-15.00
Working capital	1.38	1.38	1.38	1.38	1.38
Expected investments	**25.61**	**21.28**	**7.91**	**1.80**	**-3.51**

Cash supporting Balances will be used to fund the Council's borrowing requriement (ie internal borrowing) until 2022/23 when the Council may be required to externalise some or all of the borrowing depending on the financial position at the time (i.e. undertake external borrowing).

Minimum Revenue Provision (MRP) policy statement

The Council must approve a prudent MRP, although there are a variety of options as to how the amount is calculated. Government regulations require the full Council to approve an MRP Statement, describing which option is to be followed, in advance of each year.

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

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations. This option provides for a reduction in the borrowing need over the asset's estimated life.

Repayments of PFI or Finance Leases are allowable to use as a proxy for the above methods. The reduction in the CFR above is as a result of the PFI and finance lease MRP.

Affordability prudential indicators

The previous paragraphs and Section 3 cover the overall capital and control of borrowing prudential indicators, but within the prudential framework the Council is also required assess the affordability of capital investment plans. This provides 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 in respect of the actual and estimated ratio of financing costs to its net revenue stream.

Ratio of financing costs to net revenue stream

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

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio	7%	3%	5%	8%	10%

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

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 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

The Council's debt portfolio contains one remaining Market Loan of £5 million which will mature on 1st February 2042. The rate is fixed at 7.55% with interest payments of £377,500 a year. The status of this loan is continually assessed to determine whether better terms can be obtained. Currently, it is better to leave the loan in its present form, as the penalty for repaying early would be prohibitive. This was estimated at £5.577m (on top of the £5m debt repayment) on 3 January 2019. The costs of redemption therefore outweigh any benefit and this will remain the case for as long as cpmparative rates remain significantly below the rate payable on the loan.

In the event of a need to borrow further, the Section 151 Officer has delegated power, under Section D of Part 2 of the Scheme of Delegation, to undertake the most appropriate form of borrowing depending on prevailing interest rates. Such a decision would be reported to the appropriate decision making body at the soonest opportunity.

The Council's treasury portfolio position at 31 March 2019 summarised below with forward projections. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the CFR), indicating an over-borrowed position.

£000's	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	5,000	5,000	5,000	5,000	5,000
Expected change in Debt	0	-	-	-	3,510
Other long-term liabilities (OLTL)	4,984	0	0	0	0
Actual gross debt at 31 March	**9,984**	**5,000**	**5,000**	**5,000**	**8,510**
The Capital Financing Requirement	7,343	3,000	10,000	15,000	20,000
(Under) /over borrowing	**2,641**	**2,000**	**-5,000**	**-10,000**	**-11,490**

** decrease in long term liabilities relates to expected end of PFI scheme*

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

The Council's current indebtedness covers both the PFI and external debt, which exceeds the CFR. Essentially, this results from the Council's Large Scale Voluntary Transfer of the housing stock. As the Council cannot currently repay the £5 million loan economically, this is allowed, as an exception, by the prudential indicator above and will be corrected at the earliest practicable time.

Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR (capital financing requirement), but may be lower or higher depending on the levels of actual debt. It is to be used solely as a guideline figure.

Operational Boundary £000's	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	5,000	5,000	5,000	5,000	8,510
Other long term liabilities	4,984	300	300	300	300
Total	**9,984**	**5,300**	**5,300**	**5,300**	**8,168**

The authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and is set or revised by the Council. It reflects the level of external debt which, while not desirable, could be afforded in the short term but is not sustainable in the longer term. It is a 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.

Members are asked to approve the following authorised limit (which is based in part on the CFR projections):

Authorised Limit £000's	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	9,000	9,000	10,000	15,000	20,000
Other long term liabilities	8,000	8,000	8,000	8,000	8,000
Total	**17,000**	**17,000**	**18,000**	**23,000**	**28,000**

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. Any associated risks will be approved and reported through the standard reporting method.

Debt rescheduling

As short term borrowing rates will generally be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, as stated earlier in 3.1, the current cost of repaying the £5 million debt is prohibitive.

The reasons for any rescheduling to take place would include:

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

Any rescheduling decision made by the Section 151 Officer will be reported to Members, at the earliest opportunity.

Prospects for Interest rates

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

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. 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.

Investment and borrowing rates

- Borrowing interest rates have been subdued, with the main change being the PWLB rate increase detailed below.
- While the Council will not be able to avoid borrowing to fiund new capital expenditure, borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The Council will therefore run down spare cash balances before considering long term borrowing.

The s151 officer will monitor the balance of short term investment rates and longer term borrowing rates to minimise any adverse impact on the budget.

New financial institutions as a source of borrowing and / or types of borrowing

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

Borrowing Strategy

The Council is currently maintaining an over-borrowed position. This means that borrowing is available to fund capital expenditure. Where capital expenditure increases the need to borrow then surplus cash balances will be used initially (internal borrowing) and only when there is a need to borrow externally will this decision be made. However, other considerations would factor into this decision including:

- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing may be postponed;
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration 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.

Any decisions will be reported to the Executive at the next available opportunity.

ANNUAL INVESTMENT STRATEGY

Investment policy

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties.

2. **Other information**: 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.

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use:

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year.

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set.

7. **Transaction limits** are set for each type of investment.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**.

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

10. This authority has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2019/20 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

However, the Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

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. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 **-** good credit quality – the Council will only use banks which:
  - i. are UK banks; or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):
  - i. Short term – F1
  - ii. Long term – A-

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Money market funds – AAA
- Short dated bond funds (LVBFss)*
- UK Government (including gilts and the DMADF)
- Local authorities, parish councils etc.
- Supranational institutions
- Property Funds**

* Low Volatility Bond Funds are similar to the current MMF's and should allow marginally higher returns. These funds invest slightly longer than the current liquid MMF's and access to monies is usually over a 1 or 2 day notice period, rather than immediately. Officers will consult with our advisers over their introduction.

**Property Funds are longer term investments and although are not currently used by the Council the option may be used in future financial years. Officers will consult with our advisers over their introduction and are subject to an additional report.

A limit of 50% of the whole portfolio will be applied to the use of non-specified investments.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council currently limits its investments to UK countries, but should that change the Council has determined that it will only use approved counterparties from countries (excluding the UK) with a minimum sovereign credit rating of AAA from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than 50% of the whole portfolio will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

Institution Limits	Fitch Long term Rating (or equivalent)/ Fund Rating	Money Limit £	Time Limit
Banks 1 higher quality	AA-	£5m	3yrs
Banks 1 medium quality	A-	£5m	100 days
Banks 2 – part nationalised	-	£10.1m**	1yr
Limit 3 category – Council's banker (not meeting Banks 1)	-	£10k	1 day
DMADF	AA	unlimited	6 months
Local authorities	N/A	£5m	1yr
Money market funds (SNAV, VNAV and LNAV)	AAA	£10m*	liquid
Enhanced money market funds	AAA	£5m / 10%	liquid

**Per Fund*

*** This is set at £10.1m, rather than £10m to to allow an overnight balance on the Council's NatWest currrent account of £100k, when circumstances require. The present procedure that ensures that the current account balance remains around £5k overnight will remain. However, any income that is received after the dealing is complete for the day will be unable to be invested the same day and needs to be invested the next working day. The additional £100k allows this flexibility in day to day treasury operations. Details of any receipt transaction in excess of £100k (that has been credited to the current account after the dealing is complete) is reported within the next scheduled Treasury Report to Executive.*

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Investment strategy

In-house funds. 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). Greater returns are usually obtainable by investing for longer periods. Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.
On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are for the potential of a near term Bank Rate cut, before rising in future years, coupled with a gentle rise in short term fixed rates.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested for longer than 365 days	
Principal sums invested > 365 days	£20m

End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report which is presented at the same time as the Outturn reports.

APPENDIX D1: Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

APPENDIX D2: Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- 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.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX D3: The treasury management role of the section 151 officer

The S151 (responsible) officer

- 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
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above