East Northamptonshire Council

# Finance and Performance Sub-Committee – 17th February 2020

## Treasury Management Strategy Statement 2020/21

**Purpose of report**

The purpose of this report is to set out the Treasury Management Strategy Statement (TMSS) for 2020/21

**Attachment(s)**

Appendix 1: Treasury Management Strategy Statement 2020/21

### 1. Introduction

1.1 The Treasury Management Strategy for 2019/20 was approved as part of the Medium Term Financial Strategy (MTFS) in March 2019. An updated Treasury Management Strategy Statement for 2019/20 was approved by Full Council on 14 October 2019, and its mid-year review will be presented to Council in January 2020.

1.2 The Treasury Management Strategy provides:
- A summary of the economic conditions affecting the council's investment strategy
- Sets out the council's Prudential Indicators based on its capital expenditure plans
- Confirms the council's Capital Financing Requirement, including whether it has an underlying need to borrow

1.3 The Treasury Management Strategy outlines council's investment priorities:
- Security of capital invested
- Liquidity of capital invested
- Return on investment

1.4 The TMSS is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017.

### 2. Treasury Management Strategy Statement 2020/21

2.1 The Treasury Management Strategy can be seen at **Appendix 1.** It outlines for the forthcoming year the council's policy and strategy in terms of managing its investments both in terms of cash investments and capital investments.

2.2 As a part of this, the Treasury Management Strategy sets out the Prudential Indicators (PIs) and Capital Financing Requirements (CFR) for the medium term and provides assurances as to the affordability and sustainability of capital investments over the medium term and in particular the impact of these capital investment decisions on council tax.

2.3 The TMSS also includes details of the treasury management practices that are carried out by the council. These practices are designed to effectively manage risk within treasury management activities.

### 3 Potential Changes to the TMSS 2020/21

3.1 The TMSS has been prepared in the context of the planned move towards two new unitary councils in Northamptonshire. It is expected that East Northamptonshire Council will cease to exist on 1 April 2021, the anticipated Vesting Day of the new North Northamptonshire unitary authority which will cover East Northamptonshire, Corby, Kettering and Wellingborough. The North Northamptonshire unitary authority will develop its own financial plans and strategies, including a Treasury Management Strategy and Capital Strategy.

3.2 In the event that the proposed unitary restructure in Northamptonshire is not approved in parliament, the Treasury Management Strategy will be reviewed and amended to reflect any changes which may result from updates to the MTFS, Capital Strategy and Corporate Plan for East Northamptonshire Council.

3.5 The Authorised Limit and Operational Boundary for external debt set out in the draft TMSS may need to be revised to reflect increased borrowing requirements resulting from any updates to the MTFS and Capital Strategy as a result of any changes to the proposed unitary restructure.

3.6 To promote improved financial practice across the local government sector CIPFA have recently launched the Financial Management Code. Councils need to have regard to this in preparing their 2020/21 financial plans with a view to it being implemented from 1st April 2021. The Treasury Management Strategy is one of the core documents that underpin good financial management. More detailed guidance on the implementation of the FM Code is expected from CIPFA in April 2020. The Capital Strategy will be reviewed against the FM Code guidance when available and any recommended updates to the Strategy will be presented to full Council for approval.

**4 Equality and Diversity Implications**

4.1 There are no equality and diversity implications arising from the content of this report.

**5 Privacy Implications**

5.1 There are no privacy implications arising from the content of this report.

**6 Health Impact Assessments**

6.1 This is a report of a financial nature; no issues were identified that require a health impact assessment to be undertaken.

**7 Legal Implications**

7.1 There are no legal implications arising from the content of this report.

**8 Risk Management**

8.1 The risks arising from Treasury Management activity are recorded in the Risk Register. The risks are subject to regular review and update.

**9 Resource and Financial Implications**

9.1 This report is of a financial nature and the implications are set out within the report.

**10 Constitutional Implications**

10.1 This report does not require any amendment to the council's constitution.

**11 Implications for our Customers**

11.1 There are no implications for our customers arising directly from this report.

**12 Corporate Outcomes**

12.1 This report contributes to the following corporate outcomes:

- ***Good Value for Money*** *- This report demonstrates that the council is ensuring it effectively manages its surplus cash to achieve good value for money for the council.*

- ***Effective Management*** *- Treasury Management allows the council to manage its surplus cash balances to ensure the main principles (Security, Liquidity, and Yield) are maintained, contributing to effective management of the council.*

13 **Recommendations**

13.1 **TO FINANCE AND PERFORMANCE SUB-COMMITTEE:-**

1. To note the Treasury Management Strategy Statement for 2020/21;

2. That the report be referred to the Policy and Resources Committee for consideration at its meeting on 24 February 2020.

   *(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)*

13.2 **TO POLICY AND RESOURCES COMMITTEE:-**

1. That the Committee recommends that Full Council invites the Leader of the Council to propose the approval of the Treasury Management Strategy Statement for 2020/21

   *(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)*

13.3 **TO COUNCIL:-**

(*To be proposed by the Leader of the Council)*

1. That council approves the Treasury Management Strategy Statement for 2020/21

   *(Reason – in accordance with CIPFA guidance and best practice in Treasury Management)*

| | | | | | |
|---|---|---|---|---|---|
| **Legal** | Power: Local Government Finance Act 2002 | | | | |
| | Other considerations: Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017. | | | | |
| **Background Papers:** | | | | | |
| **Person Originating Report:** | **Katherine Hayward, Finance Manager** ☎ 01832 74(2090) ✉ khayward@east-northamptonshire.gov.uk | | | | |
| **Date: 03/02/2020** | | | | | |
| **CFO 07/02/20** | | **MO 07/02/20 (Deputy)** | | **CX 06/02/20** | |

**APPENDIX 1**

# East Northamptonshire Council
# Treasury Management Strategy Statement
# 2020/21

**Contents**



**Appendices**

1. **Background**

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the 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, 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.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA has defined 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."*

Revised reporting was required for the 2019/20 and onwards reporting cycles due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

## 1.1. Reporting requirements

## 1.2. Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare an additional report, a capital strategy report, which provides 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
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

## 1.3. 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. In addition, this Council will receive quarterly update reports.

**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.

**Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance and Performance Sub Committee.

1.4 **Treasury Management Strategy for 2020/21**

The strategy for 2020/21 covers two main areas:

**Capital issues**

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

**Treasury management issues**

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

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.

1.5. **Training**

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. The following training has been undertaken by members Treasury Management training and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.6. **Treasury management consultants**

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

## 2. Outlook for the Economy and Interest Rates

2.1. The economic interest rate outlook provided by the Council's treasury advisor Link Asset Services is attached at Appendix C. It is predicated on an assumption of an agreement being reached on Brexit between the UK and the EU and ratified by Parliament.

2.2. ***Outlook***
On this basis, while GDP growth is likely to be subdued due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of moderate increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts shown at Appendix C assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

2.3. The overall balance of risks to economic growth in the UK, increases to the Bank Rate and shorter term PWLB rate are probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture. In the event that a Brexit deal was 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.

2.4. One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

2.5. Other risks to current forecasts for UK rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis.
- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was potential for a rerun of the 2008 financial crisis but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates.
- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Other events that might boost UK rates include:

- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

2.6. Based on the above outlook for interest rates, and after taking into consideration the existing position of our portfolio, it is anticipated that the average return on the Council's funds for the next three years will be;

| Year | Average Return % |
|---|---|
| 2020/21 | 0.81 |
| 2021/22 | 1.00 |
| 2022/23 | 1.25 |

## 3. The Treasury Position

3.1. The Council's estimated average treasury position for 2019/20 and for the following financial years is:

| | 2019/20 Estimate £m | % Return | 2020/21 Estimate £m | 2021/22 Estimate £m | 2022/23 Estimate £m |
|---|---|---|---|---|---|
| **Investments** | 29.15 | 0.73 | 26.00 | 24.00 | 22.00 |
| **Total Investments** | **29.15** | | **26.00** | **24.00** | **22.00** |

3.2. The estimate for interest receipts in 2020/21 is £150k. The estimates for 2020/21 and subsequent years take into consideration the current portfolio and the outlook for interest rates. The impact on interest earned has been reflected in our financial plans.

## 4. Investment Policy and Strategy

4.1. The Council's general policy objective is to invest its surplus funds prudently. Due to the on going uncertainty in the banking sector, which has seen institutions fold, it is appropriate to focus on the safe return of the sum invested. As such the Council's investment priorities in priority order are:

- security of the invested capital
- liquidity of the invested capital
- the return received from the investment

4.1.1. The speculative procedure of borrowing purely in order to invest is unlawful and will not be used.

4.1.2. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the ODPM Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendix D.

4.1.3. The Council will maintain a counterparty list based on its criteria and monitor and update the credit standing of the institutions on a regular basis. Appendix D sets out the Council's policy for determining which counterparties to invest with and this list will be restricted to any advice given from the Council's Treasury Advisors.

## 4.2. Investment Strategy

4.2.1. The Council's investment strategy for 2020/21 will be based solely on the priorities listed in 4.1 above.

4.2.2. The return on the Council's investment will be a tertiary consideration after preservation of capital and the liquidity of our monies. The Council will endeavour to seek the best possible returns through the pro-active management of its cash balances, however, it is anticipated that the opportunities in the current environment will be limited.

*4.2.3.* The Chief Finance Officer under delegated powers will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators.

The role of the s.151 officer (Chief Finance Officer) relating to treasury management activities is set out in Appendix F.

## 4.3. *Investments Managed In-House*

4.3.1. The Council's existing investments are a combination of short-term investments (i.e. with maturities of six months or less), money market funds and call accounts, and reflect previous treasury management strategies and decisions. The mix of investments enables the Council to maintain an appropriate level of liquidity and enables it to mitigate re-investment risk (the risk that a large proportion of maturing investments are reinvested when interest rates are at a cyclical low).

4.3.2. The Council's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates. For these monies, the Council will mainly utilise Money Market Funds, Call Accounts and term deposits.

4.3.3. As and when appropriate a proportion of the Council's in-house core balances can be invested with a longer-term strategic focus, within the limits the Council has set for Non-Specified Investments:

- Investments in longer-term deposits and in bonds to provide certainty of investment income over the life of the instrument
- Collective Investment Schemes (pooled funds) as outlined in 4.6 below

- The associated increase in credit risk from a longer-term investment is managed by using counterparties meeting the Council’s longer-term credit criteria

4.4. ***Investments Managed Externally***

4.4.1. The Council currently does not use any external fund managers. Any decision to do so would be subject to review by the Finance and Performance Sub-Committee and approval by Policy & Resources Committee.

4.5. ***Investments which constitute Capital Expenditure***

4.5.1. The council will only use investments meeting the definition of capital expenditure and these do not form part of the Treasury Management Strategy. Although some types of investments which constitute capital expenditure are mentioned below.

4.6. ***Collective Investment Schemes (Pooled Funds)***

4.6.1. The Council has evaluated the use of Pooled Funds and determined the suitability of their use within the investment portfolio. The reasons for doing so are the continuing importance of investment returns in the Council’s overall finances as well as a recognition that investment returns from cash or near cash instruments will be lower in the future.

4.6.2. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. It enables the Council to establish relatively small exposures (up to £3m) in appropriate asset classes including those, which, if used within segregated funds management mandates, would constitute capital expenditure.

4.6.3. The Council does not currently use this type of investment and any decision to do so in the future will be undertaken following advice from Link Asset Services.

4.7. **Property Fund**

4.7.1. Investment into property will need to be evaluated by the Council in terms of the criteria set out in 4.1. The Council will also need to determine if the property fund will qualify as being a capital expenditure or not.

4.7.2. Therefore, the use of these instruments may be deemed as capital expenditure, and as such would be an application of capital resources. Any impact on the council’s finances would need to be assessed in line with the relevant accounting treatment.

4.8. ***The Use of Financial Instruments for the Management of Risks***

4.8.1. Currently, Local Authorities’ legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives. Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

5. **Borrowing Requirement and Strategy**

5.1. The Council’s underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Appendix B, section 5. The CFR represents the cumulative capital expenditure of the local authority that has not been financed (the underlying need to borrow). To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision (MRP) from the Revenue budget each year.

5.2. Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR and subject to the nature of the borrowing, will in turn produce an increased requirement to charge MRP in the Revenue Account.

5.3. Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

5.4. ***Balance Sheet Summary***

5.4.1. As indicated in table 1, the Authority is currently debt free (excluding the finance lease), however its capital expenditure plans currently imply an external borrowing requirement in 2019/20, based on approval of the Enterprise Centre.

| Table 1 | 2019/20 Estimate £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 | 2022/23 Estimate £'000 |
|---|---|---|---|---|
| General Fund CFR | 2,785 | 3,322 | 3,322 | 3,322 |
| **Total CFR** | **2,785** | **3,322** | **3,322** | **3,322** |
| Less: External Borrowing | 2,785 | 3,242 | 3,147 | 3,052 |
| Less: Other Long Term Liabilities | 0 | 0 | 0 | 0 |
| **Gross Borrowing Requirement** | **0** | **80** | **175** | **270** |
| Usable Balances | (19,010) | (17,371) | (16,522) | (16,131) |
| **Net Borrowing Requirement/(Investments)** | **(19,010)** | **(17,291)** | **(16,347)** | **(15,861)** |

5.5. ***Sources of Borrowing and Portfolio Implications***

5.5.1. In conjunction with advice from its treasury advisor, Link Asset Services, the Council will keep under review the following borrowing options:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from money markets
- Local authority stock issues
- Local authority bills
- Structured finance

5.5.2. The cost of carry (which is the financial cost of borrowing, including interest costs, brokers fees and marginal revenue provision) has resulted in an increase in the availability of shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns.

5.5.3. The Authority's requirement of shorter dated borrowing is kept under regular review by reference to the difference between variable rate and longer term borrowing costs.

6. **Annual MRP Statement**

6.1. East Northamptonshire Council will in accordance with the main recommendations contained within the guidance issued by the Secretary of State, under section 21(1A) of the Local Government Act 2003, assess their MRP for 2020/21.

6.2. Expenditure reflected within the debt liability at 31 March 2021 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of the expenditure, using the equal annual instalment method. For example, capital expenditure on a new building or on the refurbishment or enhancement of a building will be related to the estimated life of that building. Under this option no MRP charge is required until the financial year after that in which an item of capital expenditure is fully incurred or in case of a new asset comes into service.

6.3. MRP in respect of leases and Private Initiative Schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principle repayment for the associated deferred liability.

6.4. Estimated life periods will be determined under delegate powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt this period. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

## 7. Balanced Budget Requirement

7.1 The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

**Treasury Management Practices**

**TMP 1 - Treasury Management Policy**

In addition to managing risks in relation to investment timing, interest rates and counterparties as set out above, the Council manages the following risks:

Inflation - The Council will be aware of prevailing levels of inflation and take action where necessary to protect its finances.

Refinancing – The Council will ensure that its borrowing and financing arrangements are negotiated and structured in a manner which are favourable to the Council that can be reasonably achieved in the light of the market conditions prevailing at the time.

Legal and Regulatory - The Council places temporary surplus funds through the services of brokers on the London Money Market. Four brokers are currently used and are listed in the Council's Treasury Management policy. The role of the brokers is outlined in the Bank of England's Non Investment Products Code (NIPs), which the Council complies with. The code is detailed on the Bank of England's Website. All money transactions with brokers to approved banks, building societies and local authorities are evidenced with confirmations from both brokers and borrowers. All payments to institutions are approved by a Senior Officer and documented.

Fraud, error and corruption, and contingency management - Details of systems used and procedures to be followed are held on file. These details will include procedures required in the event of an emergency through system failure. Arrangements are in place for when the designated member of treasury management is absent so sufficient cover is available. Consideration has been given to treasury management in the Council's Corporate Disaster Plan. All personnel responsible for the Treasury Management function are included in the Authorities Insurance Policy.

Market Risk Management - The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect it from the effects of such fluctuations.

Non-Treasury Investments – Risk management for non-treasury investments in outlined in the capital strategy, section 10.

**TMP 2 – Best Value and Performance Measurement**

The Council measures its treasury management activities through analysis of the actual interest received on our total investments, cumulative interest earned and average rate received and actual interest versus budgeted interest.

At the beginning of each financial year, a budget will be formulated for the expected interest earned based following assumptions regarding the Bank of England Base Rate, market forces, Treasury Advisory Information and other national statistics.

The Council will aim to benchmark against other Local Authorities performance and other managed funds. Information regarding markets and interest rates from the brokers will be considered.

Performance measurement for non-treasury investments is outlined in the capital strategy, section 9.

**TMP 3 – Decision-making and analysis**

The Council will be clear about the nature and extent of the risks it may become exposed to. The Chief Finance Officer will inform Members where risks are material and will significantly impact on the Council's Finances.

The Council will record and retain adequate documentation in relation to the basis of decision making and the transactions undertaken. Competitiveness will be ensured by obtaining market rates daily from each of our approved brokers prior to placing the funds with an approved counterparty.

**TMP 4 – Approved instruments, methods and techniques**

Aside from the statutory or regulatory constraints, the council is not limited as to what instruments, methods or techniques it may use in managing its treasury management affairs, as long as they consistent with risk management as outlined in TMP 1.

**TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing Arrangements**

Finance and Performance Sub Committee and Policy and Resources Committee will receive reports on its treasury management policies, practices, activities and non-treasury investments, including, as a minimum, an annual strategy and plan in advance of the year. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Chief Finance Officer, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the Council's policy statement and Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

Segregation of Responsibilities. - The officers responsible for Treasury management operations are the Financial Services Manager and the Accountant (Treasury Management). The Financial Services Manager has the authority to approve transactions in line with this TMSS. These transactions are then approved separately through the banking system by two other senior officers. In the absence of the Financial Services Manager, the Section 151 Officer, Deputy Section 151 Officer and Finance Manager also have the authority to approve the transactions. The control accounts for the treasury management function are independently reconciled.

**TMP 6 – Reporting requirements and management information arrangements**

As a minimum, Policy and Resources Committee will receive an annual report on the strategy and plan for the forthcoming financial year and a quarterly treasury management/Budget Monitoring (for non-treasury investment) activity report is taken to Finance Sub Committee.

**TMP 7 – Budgeting, accounting and audit arrangements**

The Council will prepare and approve an annual budget for treasury management. Performance of actual interest earned will be measured against budgeted interest expected for the financial year.

**TMP 8 – Cash and cash flow management**

Cash flow projections will be prepared on a regular and timely basis. The Council as a minimum will prepare cash flow forecasts and actuals to be able to determine the optimum arrangements to be made for investing and managing surplus cash, to assess whether minimum acceptable levels of cash balances plus short term investments might be breached and the adequacy of standby/overdraft facilities or other contingency arrangements.

**TMP 9 – Money Laundering**

The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council. It's expectation of propriety and accountability is that Members and staff at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. As a minimum the Council will adopt the practice to serve as a reminder for staff to remain vigilant given that money laundering represents a growing threat. The Monitoring Officer, in consultation with the Chief Finance Officer, will develop and maintain an anti-fraud and corruption policy. All suspected irregularities and financial impropriety must be reported to the Chief Finance Officer, who will report to Internal Audit, the Chief Executive and Monitoring Officer. The Council will also review how anti-money laundering regulations impact on the authority.

**TMP 10 – Staff training and qualifications**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The Council will seek to employ suitably qualified staff for its Treasury Management function. The Council will continue to invest in training its treasury management staff to enable them to keep up with new developments and new Treasury Management practices.

Qualifications of staff for non-treasury investments is outlined in the capital strategy, section 6.

**TMP 11 – Use of External Service Providers**

The Council has appointed Capita Asset Services, Treasury Solutions to assist it in making optimum investments and borrowing decisions based on up-to-date data.

The Council also uses the services of a total of four brokers for the purpose of placing surplus cash investments and refinancing of borrowing (if any). This ensures the authority does not have an over-reliance on one or a small number of brokers. The brokers provide interest rates and market economy information. The council does not currently employ an external fund manager to supplement in house skills and resources, but the authority will consider these services should they add value to current operations.

**TMP 12 – Corporate Governance**

East Northamptonshire Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

East Northamptonshire Council has adopted and has implemented the key recommendation of the Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

**APPENDIX B**

## CAPITAL PRUDENTIAL INDICATORS AND BORROWING

### 1. Background:

1.1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans included within the MTFS and Capital Strategy.

### 2. Net Borrowing and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for capital purposes, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

### 3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

| Capital Expenditure | 2019/20 Approved £'000 | 2019/20 Revised £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 | 2022/23 Estimate £'000 |
|---|---|---|---|---|---|
| General Fund | 6,886 | 9,276 | 2,444 | 1,103 | 1,060 |
| **Total** | **6,886** | **9,276** | **2,444** | **1,103** | **1,060** |

3.2 Capital expenditure will be financed or funded as follows:

| Capital Financing | | | | |
|---|---|---|---|---|
| | 2019/20 Revised £000 | 2020/21 Estimate £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 |
| Capital Reserves | 564 | 795 | 150 | 150 |
| Government Grants / Contributions | 2,346 | 500 | 0 | 0 |
| Revenue Contributions | 0 | 0 | 0 | 0 |
| Earmarked Reserves Contribution | 3,581 | 612 | 953 | 910 |
| **Total Funding** | **6,491** | **1,907** | **1,103** | **1,060** |
| Supported Borrowing | - | - | - | - |
| Unsupported Borrowing | 2,785 | 537 | - | - |
| **Estimated Borrowing** | **-** | **-** | **-** | **-** |
| **Total Financing** | **9,276** | **2,444** | **1,103** | **1,060** |

### 4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

| Ratio of Financing Costs to Net Revenue Stream | 2019/20 Approved % | 2019/20 Revised % | 2020/21 Estimate % | 2021/22 Estimate % | 2022/23 Estimate % |
|---|---|---|---|---|---|
| General Fund | 1.15 | 1.15 | 1.09 | 1.13 | 1.13 |
| **Total** | **1.15** | **1.15** | **1.09** | **1.13** | **1.13** |

## 5. Capital Financing Requirements:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and capital financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure[1].

| Capital Financing Requirement | 2019/20 Approved £'000 | 2019/20 Revised £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 | 2022/23 Estimate £'000 |
|---|---|---|---|---|---|
| General Fund | 2,785 | 2,785 | 3,322 | 3,322 | 3,322 |
| **Total CFR** | **2,785** | **2,785** | **3,322** | **3,322** | **3,322** |

5.2. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should make sure that net external borrowing does not, except in the short term, exceed the Capital Financing Requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

5.3 The Council's Chief Finance Officer confirms that this Council had no difficulty meeting this requirement in 2018/19 nor are difficulties envisaged for the current or future financial years.

## 6 Borrowing

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

| Actual External Debt as at 31/3/2019 | £'000 |
|---|---|
| Borrowing | - |
| Other Long-term Liabilities | - |
| **Total** | **-** |

## 7 Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an

[1] *In line with CIPFA's guidance, any investments or other item of not falling within the classification fixed or intangible assets, but financed from capital resources must be included within the CFR for the purposes of this calculation.*

equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

| Incremental Impact of Capital Investment Decisions | 2019/20 Approved £ | 2019/20 Revised £ | 2020/21 Estimate £ | 2021/22 Estimate £ | 2022/23 Estimate £ |
|---|---|---|---|---|---|
| Increase in Band D Council Tax | 0.011 | 0.008 | 0.004 | -0.002 | -0.003 |

**8 Authorised Limit and Operational Boundary for External Debt:**

8.1 The Council has an integrated Treasury Management Strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external-borrowing items on the Balance Sheet (i.e. long and short-term borrowing, overdrawn bank balances and long-term liabilities. This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved Treasury Management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

| Authorised Limit for External Debt | 2019/20 Approved £'000 | 2019/20 Revised £'000 | 2019/21 Estimate £'000 | 2021/22 Estimate £'000 | 2022/23 Estimate £'000 |
|---|---|---|---|---|---|
| Borrowing | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Other Long-term Liabilities | 0 | 0 | 0 | 0 | 0 |
| **Total** | **5,000** | **5,000** | **5,000** | **5,000** | **5,000** |

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario.

| Operational Boundary for External Debt | 2019/20 Approved £'000 | 2019/20 Revised £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 | 2022/23 Estimate £'000 |
|---|---|---|---|---|---|
| Borrowing | 3,000 | 3,000 | 3,750 | 3,750 | 3,750 |
| **Other Long-term Liabilities** | 0 | 0 | 0 | 0 | 0 |
| **Total** | **3,000** | **3,000** | **3,750** | **3,750** | **3,750** |

## 9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

9.1. These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums.

| | 2019/20 Approved % | 2019/20 Revised % | 2020/21 Estimate % | 2021/22 Estimate % | 2022/23 Estimate % |
|---|---|---|---|---|---|
| **Upper Limit for Fixed Interest Rate Exposure** | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Upper Limit for Variable Rate Exposure** | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

9.2 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

## 10. Maturity Structure of Fixed Rate borrowing:

10.1. This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

| Maturity structure of fixed rate borrowing | Lower Limit % | Upper Limit % |
|---|---|---|
| Under 12 months | 0 | 100 |
| 12 months and within 24 months | 0 | 100 |
| 24 months and within 5 years | 0 | 100 |
| 5 years and within 10 years | 0 | 100 |
| 10 years and above | 0 | 100 |

## 11. Upper Limit for total principal sums invested over 365 days:

11.1. The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. The revised limits for 2019/20 onwards also reflect the overall lower level of investments held by the Council and the need to maintain a sufficient balance for cash flow purposes.

| | 2019/20 Approved £'000 | 2019/20 Revised £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 | 20212/23 Estimate £'000 |
|---|---|---|---|---|---|
| **Upper Limit for total principal sums invested over 365 days** | **3,000** | **3,000** | **3,000** | **3,000** | **3,000** |

**APPENDIX C**

## Link Interest Rate Forecast

| Bank Rate % | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link | 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 |
| Cap Eecon | 0.75 | 0.75 | 0.50 | 0.50 | 0.50 | | | | | | | | | |
| **5Y PWLB Rate %** | **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** |
| Link | 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 |
| Cap Eecon | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | | | | | | | | | |
| **10y PWLB Rate %** | **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** |
| Link | 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 |
| Cap Eecon | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | | | | | | | | | |
| **25Y PWLB Rate %** | **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** |
| Link | 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 |
| Cap Eecon | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 | | | | | | | | | |
| **50Y PWLB Rate %** | **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** |
| Link | 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 |
| Cap Eecon | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | | | | | | | | | |

Please note - The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction from the new Standard Loan rate of 200bps over Gilts effective as at the 9th October 2019

## Specified and Non Specified Investments

**Specified Investments identified for use by the Council:**

Specified Investments will be those that meet the criteria in the ODPM Guidance, i.e. the investment:

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criterion as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- [2]Certificates of deposit with banks and building societies
- [2]Gilts : (bonds issued by the UK government)
- [2]Bonds issued by multilateral development banks
- Money Market Funds, i.e. ‘AAA’ liquidity funds with a 60-day Weighted Average Maturity (WAM)
- [2]Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

For credit rated counterparties, the minimum criteria will be the long-term ratings assigned by one or more of the following agencies (Moody’s Investors Services, Standard & Poor’s, Fitch)

Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; A+ or equivalent for non-UK sovereigns).

[2] *Investments in these instruments will be on advice from the Council’s treasury advisor*

## Non-Specified Investments determined for use by the Council:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

| Instrument | In-House use | Maximum maturity | Max % of portfolio | Capital expenditure |
|---|---|---|---|---|
| Term Deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser) | Yes | *2 years* | *50%* in aggregate | No |
| Term deposits with local authorities | Yes | | *50% in aggregate* | No |
| Investments with part nationalised banks and building societies | Yes | *3 Months* | *£2m* | No |
| CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser) | Yes | *5 years* | *50%* in aggregate | No |
| Gilts and bonds<br>▪ Gilts<br>▪ Bonds issued by multilateral development banks<br>▪ Bonds issued by financial institutions guaranteed by the UK government<br>▪ Sterling denominated bonds by non-UK sovereign governments | Yes | *10 years* | *50%* in aggregate | No |
| Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573) but which are not credit rated | Yes | These funds do not have a defined maturity date | *50%* | No |
| Bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies | No | *10 years* | *£3m* | No |
| Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 | Yes | These funds do not have a defined maturity date | *£3m* | Yes |
| Property Funds: check whether the use of these instruments would constitute capital expenditure | Yes | These funds do not have a defined maturity date | *£3m* | Yes |

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

## CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS

1. The Chief Financial Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
2. Treasury Management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.
3. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with and will take advice as appropriate from the Council's external Treasury Advisors.
4. Credit ratings will be used as supplied from one or more of the following credit rating agencies: -
    - Fitch
    - Standard & Poor's
    - Moody's Investors Services

5. Selection criteria for approved investment counterparties.

    - Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; A+ or equivalent for non-UK sovereigns).
    - Credit Default Swaps
    - Economic fundamentals (Net Debt as a percentage of GDP)
    - Share Prices
    - Corporate Developments, news, market sentiment and momentum
    - Subjective overlay

### The Councils Bank

The Council banks with Barclays Bank.  If their credit rating does not meet the minimum credit criteria specified in this Investment Strategy, Barclays Bank will continue to be used for the short term liquidity requirements (overnight and weekend investments) only to ensure business continuity arrangements are maintained.

6. Investment limits for each counterparty:

| Credit Rating | Banks Unsecured | Bank Secured | Government | Corporate | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | n/a | n/a | £10m 50 years | n/a | n/a |
| AAA | £3m 5 years | £3.5m 20 years | n/a | £2m 20 years | £2m 20 years |
| AA+ | £3m 5 years | £3.5m 10 years | n/a | £2m 10 years | £2m 10 years |
| AA | £3m 4 years | £3.5m 5 years | n/a | £2m 5 years | £2m 10 years |
| AA- | £3m 3 years | £3.5m 4 years | n/a | £2m 4 years | £2m 10 Years |
| A+ | £3m 2 years | £3.5m 3 years | n/a | £2m 3 years | £2m 5 years |
| A | £3m 13 months | £3.5m 2 years | n/a | £2m 2 Years | £2m 5 years |
| A- | £3m 6 months | £3.5m 13 months | n/a | £2m 13 months | £2m 5 years |
| BBB+ | £1m 100 days | £1.5m 6 months | n/a | £1m 6 months | £2m 2 years |
| BBB or BBB- | Next day only | Next day only | n/a | n/a | n/a |
| None | £1m 6 months | n/a | n/a | £50,000 5 years | £1m 5 years |
| Pool funds | £3m per fund | | | | |

7. The maximum value for any one investment transaction will be as shown in the table above.
8. Sterling denominated only.
9. Sovereign rating of any non-UK counterparty will not be less than the current UK Sovereign rate.

Below is an explanation of the headings used:

*Credit Ratings and Risk Assessment:* Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

*Banks Unsecured:* Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank.

*Banks Secured:* Covered bonds, reverse repurchase agreements and other collateralized arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

*Government:* Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

*Corporate:* Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

*Registered Providers:* Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain a high likelihood of receiving government support if needed.

*Pooled Funds:* Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

**APPENDIX F**

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer is to:-

- recommend clauses, treasury management policy/practices for approval reviewing the same regularly and monitoring compliance;
- submit regular treasury management policy reports
- submit budgets and budget variations;
- receive and reviewing management information reports;
- review the performance of the treasury management function;
- ensure the adequacy of treasury management resources and skills and the effective decision of responsibilities within the treasury management function;
- recommend the appointment of external service providers

The responsibilities within the Treasury Management Code have been extended to include non-financial investments and the responsibilities and function of this role:-

- 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 that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensure 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 an adequate governance process is in place for the approval, monitoring and on going risk management of all non-financial investments and long term liabilities.
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loan and financial guarantees.
- ensuring that member are adequately informed and understand the risk exposures taken on by the authority.
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:-
    - Risk Management (TMP 1), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and managements (TMP 2), including methodology and criteria for assessing the performance and success of non-treasury investments
    - Decision making, governance and organisation (TMP 5) including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP 6) including where and how often monitoring reports are taken
    - Training and qualifications (TMP 10) including how the relevant knowledge and skill in relation to non-treasury investments will be arranged.