BUDGET PANEL – 10 JANUARY 2017
CABINET – 16 JANUARY 2017
COUNCIL – 24 JANUARY 2017

PART I – NOT DELEGATED

12. FINANCIAL PLANNING - TREASURY MANAGEMENT
(DoF)

1. Summary

1.1 The purpose of this report is to enable Budget Panel and then Cabinet to recommend to Council its Treasury Management Strategy Statement. This report in draft format has already been presented to Audit Committee on 7 December 2016.

2. Details

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: “the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

3. Treasury Management Strategy Statement 2017/18 – 2019/20

3.1 The Council is required to operate a balanced budget over the medium term which, after allowing for contributions to and from reserves, 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 counterparties or instruments commensurate with the Council’s risk appetite, considering security and liquidity before investment return.

3.2 The Treasury Management Strategy Statement for 2017/18 to 2019/20 is attached at Appendix 1.

3.3 The Treasury Management Policy Statement, details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitiored by the Audit Committee. The strategy allows the Portfolio Holder, in consultation with the Director of Finance, the delegated authority to approve any variation to the Treasury Management Strategy during the year with a view to maximise the Council’s returns without significantly increasing risk.

4. Policy/Budget Implications

4.1 Returns on investments provide a source of income that contributes to the Council's medium term financial plan.

5. **Legal, Staffing, Environmental, Community Safety, Customer Services Centre, and Website Implications**

5.1 It is a statutory requirement that the Treasury Management Strategy and Treasury Management Practices are reviewed annually. The report meets the requirement of CIPFA's Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

6. **Financial Implications**

6.1 Decisions in respect of Treasury Management will affect the Council's ability to achieve the budgets set for investment returns. The strategy appended to this report is consistent with the estimates included in the Medium Term Financial Strategy, but should Council wish to pursue a lower risk strategy an additional budget pressure might be created.

7. **Risk Management Implication**

7.1 The strategy details the approach taken to management of Treasury Risk. This is principally through ensuring that the main Treasury risks are managed. These risks are:

- liquidity risk – that the Council may not have the cash it needs on a day to day basis to pay its bills. This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board, the Council is able to access short term borrowing, usually within 24 hours.
- interest rate risk – that the costs and benefits expected do not materialise due to changes in interest rates. This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).
- exchange rate risk – that losses or gains are made due to fluctuations in the prices of currency. The does not have any significant non-Sterling transactions.
- credit and counterparty risk – that the entity holding Council funds is unable to repay them when due. This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited
- refinancing risk – that the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher. The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.
- legal and regulatory risk – that the Council operates outside its legal powers. This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.
- fraud, error and corruption – that risk that losses will be caused by impropriety or incompetence is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds
- market risk – that the price of investments held fluctuates, principally in secondary markets. The majority of the Council's investments are not traded, but where they

are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

8. Recommendation

8.1 That this report be reviewed and recommended to Council with any amendments proposed..

Background Papers:

UK Economic Forecasts provided by Capita Asset Services Treasury Solutions;
The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2013 Edition);
CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectorial Guidance Notes (2011 Edition);
CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 Edition);
DCLG Guidance on Local Government Investments (2010 Edition);

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Data checked by: Bob Watson – Head of Finance
Data rating:

1	Poor	
2	Sufficient	
3	High	✓

APPENDICES / ATTACHMENTS

Appendix 1	Treasury Management Strategy Statement 2017/18 – 2019/20
Annex A	Treasury Management Practice (TMP1) Credit and Counterparty Risk Management
Schedule 1	Details of the ratings criteria and counterparty exposure limits

APPENDIX 1

TREASURY MANAGEMENT STRATEGY STATEMENT 2017 – 2020

1.0 Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates the approved indicators. Within this overall prudential framework there is an impact on the Council's treasury management function as it can directly impact on borrowing or investment decisions. As a consequence the treasury management strategy for 2016/17 to 2019/20 is included.

2.0 The Capital Plans and Prudential Indicators 2017/18 – 2019/20

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

2.1 The Council's Capital Position

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the total capital expenditure forecasts within the proposed capital expenditure programme.

	2015/16 Actual	2016/17 Revised Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Total Capital Expenditure	£7.7m	£48.7m	£24.7m	£26.4m	£18.0m

The capital expenditure programme is financed by a combination of capital receipts, capital grants or use of reserves. The Council is also permitted to borrow to finance its capital programme, provided that the borrowing is prudent, affordable and sustainable. Over the next three years there are no planned shortfalls in the level of resources which would result in a need to borrow externally, however it is always good practice to review the future borrowing requirements and if necessary borrow at the most prudent time based on expectations of need and future interest rates.

2.2 The Council's Borrowing Need - The Capital Financing Requirement (CFR)

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. This includes expenditure on alternative types of investment (such as properties, where these are included in the capital programme) and on schemes, such as the Watford Health Campus, which will require funding for a period before making returns to the Council.

Following accounting changes, the CFR also includes any other long term liabilities (e.g. finance leases) that have been brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections below.

	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total CFR	£2.6m	£29.4m	£35.4m	£35.4m	£35.4m
Adjustment A	(£2.5m)	(£2.5m)	(£2.5m)	(£2.5m)	(£2.5m)
Net CFR	£0.1m	£26.9m	£32.9m	£32.9m	£32.9m
Movement in the CFR*		£26.8m	£6.1m	nil	nil

***** Includes MRP and/or voluntary contributions to reduce the CFR

The Council complies with the regulations which allow authorities to continue to not make an MRP known as Adjustment A. This adjustment was designed to ensure, as was the Government's policy aim, that the move in 2004 to the Prudential system did not in and of itself increase any authority's MRP liability. Any new capital expenditure if unfunded and requiring credit cover above adjustment A would however need to generate a MRP, subject to the Council's MRP Strategy Statement (below).

2.3 Minimum Revenue Provision (MRP) Strategy and Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Communities and Local Government Regulations require the Council to approve an MRP Statement in advance of each year. The Council has a statutory duty to ensure that this MRP policy makes prudent revenue provision. Council is recommended to approve the following MRP statement:

The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

Watford Borough Council's policy is therefore to produce, for approval by the Director of Finance in consultation with the Lead Member, a business case for each scheme intended to be unfunded from other resources. This will clearly show the level of MRP which is proposed to ensure that the repayment of any debt can be made in a period commensurate with the period over which the expenditure provides benefits or makes returns.

2.4 The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure, for internal borrowing (where cash is 'borrowed' from reserves rather than externally), or (for revenue reserves only) in support of the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources such as further disposals, grants, and so on.

The Property Investment Board will play an important role in optimising returns on capital investments. Subject to each business case, where reserves or cash balances can be deployed in accordance with the Property Investment Strategy to generate better returns for the Council, then Council is asked to approve the flexibility required to invest Council funds accordingly.

3.0 Treasury Management Strategy

The treasury management strategy is an important part of the overall financial management of the Council's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. The Council's treasury activities are regulated by statutory requirements and the CIPFA Code of Practice on Treasury Management. The Council has adopted a Treasury Management Policy Statement in accordance with the code of practice.

The Constitution requires a strategy to be reported to Council outlining the expected treasury activity over the medium term. A key requirement is to explain the risks associated with the treasury service. Further treasury reports are produced after the year-end to report on actual activity for the year and a mid-year monitoring update. This strategy covers:

- The current portfolio position;
- The borrowing strategy;
- Annual investment strategy;
- Specific limits on treasury activities;
- Treasury performance indicators;
- Reporting requirements;
- Policy on use of external service providers;
- Training of Officers and Members.

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service delivery. This will involve the organisation of both cash flow and the use of approporiate short-term borrowing facilities if required. The strategy covers the relevant treasury prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's current treasury portfolio position at 31 December 2016, with forward projections are summarised below.

Treasury Portfolio	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Borrowing 31 March	£7.5m	£7.5m	£7.5m	£7.5m	nil
Total Cash and Treasury Investments 31 March	£54.3m	£17.5m	£12.0m	£24.7m	£24.4m

The external borrowing relates to:

- The Growing Places Funding from the Hertfordshire Local Enterprise Partnership (LEP) was received in July 2013 and is due to be repaid in March 2020. The money has been paid over to the LABV (Local Asset Backed Vehicle) to finance the infrastructure phase of the Watford Health Campus. The development zones will pay back the loan as they are completed.

- £1.5m loan from LEP to part fund the redevelopment of Zone A in Watford Business Park which is due to be repaid in March 2020. The loan is being used to finance the development of new Industrial units in Caxton Way which are expected to be completed in 2017/18.

The Council held £35.5m of investments as at 31 December 2016. An interest rate of 0.50% was paid on credit balances on the current account (until 3 Aug 2016) and is currently 0.25% in line with the current bank rate. This information is reported in the monthly Members Information Bulletin.

Institution	Principal (£)
Banks	
Clydesdale Bank Plc	3,000,000
Lloyds Bank Plc	6,000,000
Santander UK Plc	5,000,000
Total	***14,000000***
Building Societies	
Coventry Building Society	8,500,000
Nationwide Building Society	1,000,000
Principality Building Society	10,000,000
Skipton Building Society	2,000,000
Total	***21,500,000***
Grand Total	***35,500,000***

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

Monthly Interest Rates to the end of December 2016

Month	Rate Achieved
April	0.76%
May	0.76%
June	0.79%
July	0.79%
August	0.75%
September	0.72%
October	0.70%
November	0.46%
December	0.41%

The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.25%. The returns up to 31 December averaged 0.68%, against a benchmark rate of 0.37 %. The average yield return is higher than the benchmark for the year to date. In accordance with its risk appetite, the Council tends to keep the majority of investments short-term (not greater than 364 days).

The budget for interest on investments for 2016/17 is £220,000; interest received up to the end of October was £176,000 and it is forecast the interest budget will be achieved.

3.2 Prospects for Interest Rates

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%

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

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

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

3.3 Treasury Indicators: Limits to Borrowing Activity

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.

The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of CFR for 2017/18 and next 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 has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

3.3.1 Treasury Management Indicator - The Operational Boundary

This is the limit which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. It is not currently expected that the Council will need to borrow, this limit represents a contingency should the need arise.

As the council already has loan of £7.5m from the LEP and the current estimate suggests that the Council will be able to make the cash payments required from balances, there are no plans to borrow in the next three years. However, it is prudent to set the operational boundary at a level in line with the Council's projected Capital Financing Requirement to allow scope for additional borrowing should it be required to fulfil the Council's objectives to optimise returns on investments or to allow the Council to manage its cash-flow.

Operational Boundary	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£25m	£25m	£20m	£20m

3.3.2 Treasury Management Indicator - The Authorised Limit for External Borrowing

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003.

Authorised Limit	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£30m	£30m	£25m	£25m

3.3.3 Treasury Management Indicator – Actual External Debt

This is the closing balance for actual gross borrowing obtained directly from the council's Balance Sheet at year end.

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals within this report regarding future external borrowing.

3.4 Borrowing Strategy

Although at this stage there is no requirement to borrow externally over the medium term, the Council has a number of regeneration projects for which support, through borrowing, has been provided by the Hertfordshire LEP. Any further external borrowing requirements which are not simply for short term cash-flow will be reported to Members at the appropriate time.

3.5 Annual Investment Strategy

3.5.1 Key Objectives

The Council's investment strategy's primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The current strategy allows the Portfolio Holder, in consultation with the Director of Finance, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of to maximising the Council's returns without significantly increasing risk.

3.5.2 Investment Policy

The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are security first, liquidity second, then yield.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules and are detailed at Annex A.

3.5.3 Creditworthiness policy

The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the 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.

- 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 Director of Finance 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 and will provide an overall pool of counterparties considered high quality.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. 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 as they occur and this information is considered before dealing.

Counterparty Categories

The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**
  The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.

- **Banks 2 – The Council's Own Banker**
  For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.

- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.

- **Building Societies**
  The Council will use all Societies which meet the ratings for banks outlined above or are eligible institutions and have assets in excess of limits for each category.

- **Specific Public Bodies**
  The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.

- **Money Market Funds AAA Rated**
  The Council may lend to Money Market Funds in order to spread its investment risk.

- **Local Authorities**
  A limit per authority will be applied as per Annex A.

- **Debt Management Deposit Account Facility**
  A Government body which accepts local authority deposits.

- **Council Subsidiaries (non-Specified)**
  The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

  The current investment counterparty criteria selection approved in the Treasury Management Strategy is being met.

For details of Specified and Non-Specified Investments see below.

Use of Additional Information Other Than Credit Ratings

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits Applying to Investments

The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

Exceptional Circumstances

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

3.5.4 Investment Strategy

In-House Funds - investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment Returns Expectations:

Bank rate is forecast to remain unchanged at 0.25% before starting to rise from quarter 2 of 2019/20. Bank rate forecasts for financial year ends (March) are:

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%

Investment Treasury Indicator and Limit - total principal funds invested for greater than one year. 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.

Treasury Indicator & Limit	2016/17	2017/18	2018/19	2019/20
Maximum Principal Sums invested for greater than one year (excluding property investments)	£5m	£5m	£5m	£5m

3.5.5 Investment Risk & Security Benchmarking

These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. In line with the Treasury Management Strategy, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

Security

Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moodys and Standard & Poors). Where investments are made to Council subsidiaries (non-listed), the security is measured through a business case with independent viability assessment.

Liquidity

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £3m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body.

The Council has the benefit of instant access to its funds on the general account with Lloyds.

Yield

The measure of yield on Investments is a return of 0.12% above average bank rate. In accordance with the Code of Practice on Treasury Management which is used as a performance indicator. The results of this indicator for the year will be reported in the Treasury Annual Report.

3.6 Reporting Requirments

End of Year Investment Report - the Council will report on its investment activity for the financial year completed as part of its Annual Treasury Management Report after the end of the financial year.

Mid-year Investment Report – the Council will report on its investment activity for that financial year as part of its mid-year Treasury Management Report at the end of September of that financial year.

Treasury Management Strategy – the Council will produce the Strategy for the next three financial years towards the end of the current financial year.

3.7 Policy on the Use of External Service Providers

The contract for external treasury management advisors has been re-tendered in October 2016, and following this, Capita Asset Services Treasury Solutions have been appointed as the advisors to the Council until Ooctober 2019. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Council will also, from time to time, procure specialist advice (such as for the verification of business cases for loans to Council subsidiaries). This work will be procured in accordance with the Council's normal procedure rules.

3.8 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management;
- Regular briefings both by email and face to face with the Council's consultants;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

Treasury Management Practice (TMP1) **ANNEX A**
Credit and Counterparty Risk Management

The DCLG issued a reviewed Investment Guidance in 2010 (second edition), and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced this Treasury Management Practices (TMP's) guidance.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – the main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – these investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).

2. A local authority, parish council or community council.

3. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies or a Building Society with assets over £1,000m. Non rated Building Societies are non-specified investments.

4. Money Market Funds (triple AAA rated only).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

The ratings criteria and exposure limits are detailed at **Schedule 1.**

Exception - Clydesdale Bank plc

The investment with Clydesdale is a long-standing investment made in April 2010. The Council placed funds with Clydesdale to support local businesses. When the Bank's credit rating was downgraded and it no longer met the criteria as outlined within the Treasury Management Strategy, its continuing use as a counterparty has been approved by Leadership Team. At the time of the report Clydesdale bank plc had the following credit ratings by Fitch, Standard and Poors and Moody's respectively: short term F-1, A-2 and P-2 and long term A, BBB+ and Baa2 respectively.

Non-Specified Investments – non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
b.	The Council's own banker if it fails to meet the basic credit criteria.	In this instance balances will be minimised as much as possible
c.	Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000m, but will restrict these types of investments to £2m for up to six months.	£2m
d.	Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£10m
e.	Loans to Council Subsidiaries The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.	£10m
f.	Other unspecified investments The strategy allows the Portfolio Holder, in consultation with the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of to maximising the Council's returns without significantly increasing risk. This allows the addition of further unspecified	£10m

	investments, subject to conditions which will be generally similar to (e).	

In accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

In respect of categories 'd' to 'f' this will only be considered after obtaining external advice and subsequent Member approval.

The Council will also consider investment in property in accordance with its Property Investment Strategy (attached). All property investments will be dependent on a standalone business case being proven. The Council will always seek advice from its retained advisors as to the levels of core funds that can prudently be invested in property.

The Monitoring of Investment Counterparties

The credit rating of counterparties is monitored regularly. The main rating agencies (Fitch, Moody's and Standard & Poor's) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties; F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard & Poor's respectively. Minimum Short Term Ratings, where given, must be met for all categories. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

For non-specified investments (e.g. e-f above) the progress of the entity against the approved, independently verified business case will be monitored by the Director of Finance.

Schedule 1

Institution Type	**Max Amount:**			**£5m**	**£10m**	**£10m**	**£10m**	**£10m**
	Max Length:			**10 Years**	**364 Days**	**6 Months**	**3 Months**	**1 Month**
	Minimum Short Term Ratings							
	Fitch	**Moody's**	**S&P**					
UK Banks								
The Council's own Bankers	F1	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible.				
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
UK Building Societies								
Either	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Or					Assets over £15,000m	Assets over £5,000m	Assets of £2,500m	Assets of £1,000m
Specific Public Bodies				As approved by Members				
Debt Management Deposit Facility (UK Government)						Unlimited		
Money Market Funds (AAA Rated)								£5m per fund
UK Local Authorities				The Council can invest in all UK Local Authorities whether rated or not	£10m per local authority.			

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.

2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).

3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.

4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

The Property Investment Strategy is in draft and can be found at the following link:

http://watford.moderngov.co.uk/documents/s11015/Appendix%20B.pdf