Appendix 1

Treasury Management Strategy Statement 2023/24

WATFORD BOROUGH COUNCIL

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Watford Borough Council · TOWN HALL · WATFORD, HERTS WD17 3EX

1. Overview

1.1. This document sets out the Council’s Treasury Management Strategy Statement.

1.2. 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”.

1.3. The Treasury Management Strategy Statement supports the delivery of the Council’s Capital Strategy and provides additional detail on how the Council manages its Treasury Management Activity.

1.4. The Treasury Management Strategy Statement details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The primary objectives of the Treasury Management Strategy Statement are:

- Security - Safeguard the repayment of the principal and interest of its investments on time
- Liquidity - Ensure adequate liquidity to meet obligations as they fall due
- Yield - Investment return is the final objective and is considered after the security and liquidity requirements have been satisfied.

1.5. This statement is reviewed and approved annually by Council alongside the Council’s budget, Medium Term Financial Strategy (MTFS) and Capital Strategy.

1.6. The Director of Finance in consultation with the Portfolio Holder Resources has delegated authority to approve any variation to the Treasury Management Strategy Statement during the year with the objective of maximising the Council’s returns without significantly increasing risk.

2. Risks

2.1. The key Treasury Management risks are set out in the CIPFA Treasury Management Code of Practice (“the TM Code”). The following paragraphs set out these risks and how they are managed:

Liquidity Risk - 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 and other organisations, the Council is able to access short term borrowing, usually within 24 hours.

Interest Rate Risk - 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, within limits set for the amount of borrowing which may mature in a given time-period, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

Exchange Rate Risk - losses or gains are made due to fluctuations in the prices of currency.

The Council does not engage in any significant non-sterling transactions.

Credit and Counterparty Risk - 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 - 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 - 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 - the risk that losses will be caused by impropriety or incompetence.

This 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 - 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.

3. Treasury Indicators: Limits to Borrowing Activity

3.1. 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 Strategy Statement and practices. These indicators are set out in the Capital Strategy.

3.2. 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.

3.3. In addition to the limits controlling the total amount of borrowing, further limits are in place to control the Council's exposure to interest rate risk on refinancing. These limits are set out in the following table:

Maturity Structure of Borrowing		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	50%
10 years to 20 years	0%	50%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

3.4. These limits range between 0% and 100% for loans out to 5 years where there is some degree of accuracy with the forecasts for interest rates. Then for the longer term, loans are limited to 50% of the overall borrowing portfolio maturing in each of the given timeframes. The 50% maximum limit protects the Council from being exposed to high levels of refinancing when interest rates may be substantially higher than they are now. Borrowing is expected to increase in following the strategy set out in the following paragraphs

4. Borrowing Strategy

4.1. The Council's treasury team maintains a cashflow forecast and works its liquidity requirements within this forecast; it may, on rare occasions, be necessary to borrow short-term for cashflow purposes. This will be in the form of short term debt or overdraft facilities and is normally for small amounts for minimum durations. As this is based on need and has a defined repayment period it is not normally included within the limits set above.

4.2. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated (i.e. the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds. Any associated risks will be approved and reported through the standard reporting method.

4.3. The Council's level of external borrowing is expected to increase across the period of the MTFS. In recent years the Council has followed a policy of using internal borrowing – which is the use of the Council's own short-term cash surpluses (which back the Council's reserves and provisions) – to limit the interest cost of financing borrowing-funded elements of the Capital Programme. The Council's capacity to use internal borrowing is now diminished and external borrowing will be required to finance future spend. In the longer-term it will also be necessary to refinance internal borrowing with external debt.

4.4. Interest rates on short-duration loans are significantly lower than on longer term debt. Interest rates are expected to remain at these very low levels for some time to come. In order to benefit from these lower short-term rates, it is proposed that the Council will manage long-term financing by building a portfolio of short-term (0-5 year duration) loans, the timing of which will be determined by the cash need to borrow.

4.5. Short-term debt will be replaced by longer term (10+ year duration) loans, based on projections for CFR, ensuring that financing cost will be spread over the useful life of the assets being financed.

4.6. Officers will monitor interest rate forecasts, and in conjunction with Treasury Management advisors determine the optimum timing and amount of future borrowing.

5. Investment Policy

5.1. The Council's investment policy has regard to the Statutory Guidance on Local Government Investments and the TM Code. The Council's investment priorities are security first, liquidity second, then yield.

5.2. Investment instruments identified for use in the financial year and counter-party limits are listed in Annex A under the 'Specified' and 'Non-Specified' Investments categories.

5.3. As part of its diversification of investments, the Council has invested some of its core funds (i.e. funds not immediately required for cashflow reasons) in longer–term investment property instruments. These are in the form of individual assets directly owned by the council. All property investments are controlled through the Property Investment Board (PIB) and each investment is subject to its own business case and appraisal before a decision to invest is taken and before any Council funds are committed.

5.4. Although the Council has no current investments or plans to invest in pooled property funds, these are permitted under the policy and are an option that could be considered in the future

5.5. The Council received a £92m reserve as a result of its acquisition of Croxley Park. These funds will be required over the life of the asset to cover any shortfalls in rental income (voids) and to cover the cost of planned programmed maintenance and refurbishment.

5.6. Following a competitive appointment process supported by the Council's Treasury Advisers, this cash has now been invested in three funds managed by Royal London Asset Management.

5.7. These investments are governed by the Councils Treasury Management Strategy Statement, but are to be considered separately from the Council's operational cash. The performance of these investments will be reported separately to the Property Investment Board.

6. Creditworthiness policy

6.1. 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 schedule at Annex A.
- 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.

6.2. The Director of Finance will maintain a counterparty list in compliance with the following criteria in section 7. The criteria will be reviewed regularly and proposed changes will be submitted to Council for approval as necessary in order to provide an overall pool of counterparties considered high quality.

6.3. 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 almost immediately after they occur and this information is considered before dealing.

7. Counterparty Categories

7.1. 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.
- **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 of £5m per authority will be applied.
- **Debt Management Office 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 Director of Finance in consultation with the Portfolio Holder for Resources. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

7.2. The Council will also consider investment in property in accordance with its Property Investment Strategy. All property investments will be dependent on a standalone business case being proven. Further details of counterparty categories and limits are set out Annex A Schedule of Specified and Non-Specified Investments.

8. The Monitoring of Investment Counterparties

8.1. 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 Link Asset Services 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.

8.2. For non-specified investments the progress of the entity against the approved, independently verified business case will be monitored by the Director of Finance.

9. Use of Additional Information Other Than Credit Ratings

9.1. Additional requirements under the TM Code 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.

10. Time and Monetary Limits Applying to Investments

10.1. The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below at paragraph 11.2, are driven by the criteria set out in sections 7 and 8. These limits will cover both Specified and Non-Specified Investments.

11. Exceptional Circumstances

11.1. 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.

11.2. Examples of these restrictions would be the greater use of the Debt Management Office Account Deposit Facility (DMADF) – 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.

12. Interest Rates

12.1. Interest rates are currently rising due to tightening of monetary policy to combat inflation and concerns over the UK economy. Increasing rates are leading to higher borrowing costs which will ultimately impact on the ability to finance the capital programme at the same level as previously. At the time of writing this strategy there is much uncertainty in the market and the impact of fiscal tightening has yet to be seen.

12.2. The Council's current strategy is to borrow over the shorter term and using advance deals already in place whilst continuously monitoring rate movements so that debt can be fixed long term when opportunities arise and the market view improves. Market commentators are predicting a fall back in rates over the medium term although it is unlikely that this will be to previous historically low levels.

13. Investment Strategy

13.1. 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).

13.2. 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. The table below provides details of these limits.

Treasury Indicator & Limit	2022/23 £000	2023/24 £000	2024/25 £000
Maximum amount invested for periods over one year (Excludes Croxley Park Reserve, property investment and loans to Council subsidiaries).	£5m	£5m	£5m
Maximum amount invested for periods over one year. (Money Market Funds – Croxley Park Reserve)	£115m	£115m	£115m

14. Investment Risk & Security Benchmarking

14.1. The Council sets benchmarks for security, liquidity and yield. 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. The benchmarks are as follows:

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 sets the following liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £1.0m available with a week's notice.

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

Yield:
The Council benchmarks the yield on its operational cash against SONIA (the Sterling Overnight Index Average). This is a measure of market rates for actual returns on overnight cash deposits. Performance against this indicator is monitored throughout the year.

15. Reporting Requirements

15.1. The Audit Committee has the responsibility for the scrutiny of Treasury Management policies and practices and receives the Treasury Management Policy for review prior to approval by Council.

15.2. An annual report on the performance of the Treasury Management function, including the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy is considered by Council following the end of the financial year.

15.3. Council also receives a Mid-Year Treasury Management Report setting out activity to 30 September.

16. Policy on the Use of External Service Providers

16.1. The contract for external treasury management advisors is carried out by Link Asset Services. 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.

16.2. The Council will also, from time to time, procure specialist advice for ad-hoc pieces of work; this will be procured in accordance with the Council's normal procedure rules.

17. Member and Officer Training

17.1. In order to ensure that Members and Officers are sufficiently trained and qualified to monitor and manage the Council's Treasury Management activity, the following measures are in place:

- 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 Treasury advisors;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

Annex A

Schedule of Specified and Non-Specified Investments

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:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- A local authority, parish council or community council.
- 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.
- 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 in Schedules 1A to 1C.

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 on the following page.

Non Specified Investment Category	**Limit (£ or %)**
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
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
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
Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£10m
Loans to Council Subsidiaries The Council will lend to its subsidiaries subject to approval of a business case by the Director of Finance in consultation with the Portfolio Holder (Resources). Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.	£10m limit for any single loan
Money Market Funds Appointed through competitive process for the investment of the Croxley Park Reserve	£100m
Other unspecified investments The strategy allows the Director of Finance, in consultation with the Portfolio Holder (Resources), 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 investments, subject to conditions which will be generally similar to (e).	£10m

	Minimum Short Term Ratings			Schedule 1 (A) – UK BANKS			
Institution	**Fitch**	**Moody's**	**S&P**				
The Council's own Bankers	F1m	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	Long Term Credit Rating: AA(F), Aa2(M), AA(S&P)	Long Term Credit Rating: Single A (All agencies)	Long Term Crediting Rating: Lower than A (All Agencies)	Long Term Crediting Rating: Lower than A
Partially Owned Subsidiaries of UK Clearing Banks Parent Ratings	F1	P-1	A-1	Long Term credit Rating: AA(F), Aa2(M), AA(S&P)	Long Term Crediting Rating: Single A (All agencies)	Long Term Credit Rating: Lower than A (All Agencies)	Long Term Credit Rating: Lower than A
	Max Amount / Length:			**£10m** **364 Days**	**£10m** **6 Months**	**£10m** **3 Months**	**£10m** **1 Month**

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	Minimum Short Term Ratings			**Schedule 1 (B) – Building Societies**			
Institution	Fitch	Moody's	S&P				
Building Societies – By Credit Rating	F1	P-1	A-1	Long Term Credit Rating: AA(F), Aa2(M), AA(S&P)	Long Term Credit Rating: Single A (all agencies)	Long Term CreditRating: Lower than A (All Agencies)	Long Term Crediting Rating: Lower than A
Building Societies – by Total Assets				Assets over £15bn	Assets over £5bn	Assets of £2.5bn	Assets of £1bn
	Max Amount / Length:			**£10m** **364 Days**	**£10m** **6 Months**	**£10m** **3 Months**	**£10m** **1 Month**

Schedule 1 (C) – Other Entities	
1. Specific Public Bodies	As approved by Members – up to £10m for up to 10 years
2. Debt Management Deposit Facility (UK Government)	Unlimited – this is the Council's Safe-Haven Deposit facility with the UK Government
3. Money Market Funds (AAA Rated) – excluding Croxley Park Reserve	£5m per fund
4. Municipal Bond Agency	As approved by Members
5. UK Local Authorities	A Maximum of £5m Applies per Authority. The Council can invest in all UK Local Authorities whether rated or not. The Council will not lend to an authority which is subject to a s.114 notice *without member approval.*

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).