

# **Essential Reference Paper “B”**

## **East Herts District Council**

### **Treasury Management Strategy Statement**

Minimum Revenue Provision Policy Statement and  
Annual Investment Strategy

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2018/19

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## 1 INTRODUCTION

### 1.1 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.

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.”*

### 1.2 Reporting requirements

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

#### **Prudential and treasury indicators and treasury strategy (this report)**

- The first, and most important, report 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).

**A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### **Scrutiny**

It is a requirement that the above reports are adequately scrutinised before being recommended to the Council. The Performance, Audit and Governance Scrutiny Committee undertake this role.

### **1.3 Treasury Management Strategy for 2018/19**

The strategy for 2018/19 covers two main areas:

#### **Capital issues**

- the capital plans and the prudential indicators;
- the 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, CLG (Department for Communities and Local Government) MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

### **1.4 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. Members received training on 16<sup>th</sup> May 2017 from our treasury advisors Capita Asset Services (now Link Asset Services) and further training will be arranged as required.

Treasury management officers regularly attend CIPFA and Link Asset Services workshops and seminars; further training needs are reviewed periodically.

### **1.5 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 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.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

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.

### 2.1 Capital expenditure

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 capital expenditure forecasts:

<b>Capital expenditure £m</b>	<b>2016/17 Actual £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
<b>Total</b>	<b>2.8</b>	<b>5.3</b>	<b>1.9</b>	<b>1.6</b>	<b>16.2</b>

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how capital or revenue resources are financing these plans. Any shortfall of resources results in a funding borrowing need.

<b>Financing of capital expenditure £m</b>	<b>2016/17 Actual £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Capital receipts	1.9	3.3	1.0	0.5	0.5
Capital grants	0.3	0.0	0.0	0.0	0.0
Capital reserves	0.4	0.0	0.0	0.0	0.0
Revenue	0.2	0.0	0.0	0.0	0.0
<b>Net financing need for the year</b>	<b>0.0</b>	<b>2.0</b>	<b>0.9</b>	<b>1.4</b>	<b>15.7</b>

### 2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either

revenue or capital resources. It is essentially a measure of the Council's indebtedness and so is its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Councils borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below:

<b>£m</b>	<b>2016/17 Actual £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>(23.1)</b>	<b>(23.1)</b>	<b>(21.1)</b>	<b>(20.2)</b>	<b>(18.8)</b>
<b>Movement in CFR</b>	<b>0.0</b>	<b>2.0</b>	<b>0.9</b>	<b>1.4</b>	<b>15.7</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	0.0	2.0	0.9	1.4	15.7
Less MRP/VRP and other financing movements	0.0	0.0	0.0	0.0	0.0
<b>Movement in CFR</b>	<b>0.0</b>	<b>2.0</b>	<b>0.9</b>	<b>1.4</b>	<b>15.7</b>

*Note the MRP / VRP will include finance lease annual principal payments*

### **2.3 Core funds and expected investment balances**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the



revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

<b>Year End Resources £m</b>	<b>2016/17 Actual</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
Fund balances / reserves	15.3	14.6	14.6	16.0	17.9
Capital receipts	0.8				
Provisions	0.0				
Other	0.5				
<b>Total core funds</b>	<b>16.6</b>				
Working capital*	32.4	30.4	29.5	28.1	12.4
(Under)/over borrowing**	7.8	7.5	7.5	7.5	1.5
<b>Expected investments</b>					

\*Working capital balances shown are estimated year-end; these may be higher mid-year

### 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. 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 treasury portfolio position at 31 March 2017, with forward projections, are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

<b>£m</b>	<b>2016/17 Actual</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
<b>External Debt</b>					
Debt at 1 April	7.5	7.5	7.5	7.5	7.5
Expected change in Debt	0.0	0.0	0.0	0.0	(6.0)
Other long-term liabilities (OLTL)	0.3	0.0	0.0	0.0	0.0
Expected change in OLTL	0.0	0.0	0.0	0.0	0.0
Actual gross debt at 31 March	<b>7.8</b>	<b>7.5</b>	<b>7.5</b>	<b>7.5</b>	<b>1.5</b>
The Capital Financing Requirement	<b>(23.1)</b>	<b>(23.1)</b>	<b>(21.1)</b>	<b>(20.2)</b>	<b>(18.8)</b>
Under / (over)	<b>(7.8)</b>	<b>(7.5)</b>	<b>(7.5)</b>	<b>(7.5)</b>	<b>(1.5)</b>

borrowing					
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Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Strategic Finance and Property 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 in this budget report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

<b>Operational boundary £m</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
Debt	7.5	7.5	7.5	1.5
Other long term liabilities	0.0	0.0	0.0	0.0
<b>Total</b>	<b>7.5</b>	<b>7.5</b>	<b>7.5</b>	<b>1.5</b>

**The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

<b>Authorised limit £m</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
Debt	11.5	11.5	11.5	11.5
Other long term liabilities	0.2	1.0	1.0	1.0
<b>Total</b>	<b>11.7</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>

### 3.3 Prospects for interest rates

A more detailed interest rate forecast and economic commentary are set out in ERP C and D.

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. (Federal Reserve) has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of

progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. 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 probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly 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.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee

policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.

- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer-term PWLB rates include -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation 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 returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed. causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

### **Investment and borrowing rates**

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that,

there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

### **3.4 Borrowing strategy**

The Council is currently in a negative CFR position. This means that the capital borrowing need (the Capital Financing Requirement), has not been reached due to the level of the Council's reserves.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Head of Strategic Finance and Property will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Any decisions which will result in a significant change to the CFR and this Council's need to borrow, will be reported to full council at the next available opportunity.

### **3.5 Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **3.6 Debt rescheduling**

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these



savings will need to be considered in light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the *Council*, at the earliest meeting following its action.

### **3.7Municipal Bond Agency**

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

## **4 ANNUAL INVESTMENT STRATEGY**

### **4.1 Investment policy**

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties, which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

Investment instruments identified for use in the financial year are listed in appendix 5.4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

### **4.2 Creditworthiness policy**

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;

- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service: -

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

	Colour (and long term rating where applicable)	Money Limit at Time of Investment per Banking Group / Fund / Authority	Time Limit
<b>Banks *</b>	<b>yellow</b>	<b>£10m</b>	<b>5yrs</b>
<b>Banks</b>	<b>purple</b>	<b>£10m</b>	<b>2 yrs</b>
<b>Banks</b>	<b>orange</b>	<b>£10m</b>	<b>1 yr</b>
<b>Banks – part nationalised</b>	<b>blue</b>	<b>£20m</b>	<b>1 yr</b>
<b>Banks</b>	<b>red</b>	<b>£10m</b>	<b>6 mths</b>
<b>Banks</b>	<b>green</b>	<b>£10m</b>	<b>100 days</b>
<b>Banks</b>	<b>No colour</b>	<b>Not to be used</b>	
<b>Limit 3 category – Council's banker (where "No Colour")</b>	<b>XXX</b>	<b>£20m</b>	<b>1 day</b>
<b>Property Funds</b>	<b>-</b>	<b>£20m</b>	<b>Not a fixed term investment so no time</b>

			<b>limit</b>
<b>DMADF</b>	<b>UK sovereign rating</b>	<b>unlimited</b>	<b>6 months</b>
<b>Local authorities</b>	<b>n/a</b>	<b>£10m / %</b>	<b>5yrs</b>
	<b>Fund rating</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Money Market Funds CNAV</b>	<b>AAA</b>	<b>£10m</b>	<b>liquid</b>
<b>Money Market Funds LVNAV</b>	<b>AAA</b>	<b>£10m</b>	<b>liquid</b>
<b>Money Market Funds VNAV</b>	<b>AAA</b>	<b>£10m</b>	<b>liquid</b>
<b>Ultra-Short Dated Bond Funds with a credit score of 1.25</b>	<b>Dark pink / AAA</b>	<b>£10m</b>	<b>liquid</b>
<b>Ultra-Short Dated Bond Funds with a credit score of 1.50</b>	<b>Light pink / AAA</b>	<b>£10m</b>	<b>liquid</b>

*\* Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see ERP E.*

### 4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in ERP G. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

### 4.4 Investment strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment returns expectations.**

Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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

	<b>Now</b>
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

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

The Council is asked to approve the treasury indicator and limit:

<b>Maximum principal sums invested &gt; 364 &amp; 365 days</b>			
<b>£m</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Principal sums invested > 364 & 365 days	£40m	£40m	£40m

*This takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.*

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

#### **4.5 Investment risk benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 1, 3, 6 or 12 month LIBID compounded / uncompounded.

#### **4.6 End of year investment report**

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

## **5 ESSENTIAL REFERENCE PAPERS**

- A. Implications/Consultations
- B. Treasury Management Strategy 2018/19 (this report)
- C. Prudential and treasury indicators and MRP statement
- D. Interest rate forecasts
- E. Economic background
- F. Treasury management practice 1 – credit and counterparty risk management
- G. Approved countries for investments
- H. Treasury management scheme of delegation
- I. The treasury management role of the section 151 officer