APPENDIX 7

TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20 to 2021/22

1. Introduction

The CIPFA Code of Practice for Treasury Management in the Public Services (the 'CIPFA Treasury Management Code') and the CIPFA Prudential Code require local authorities to produce a Treasury Management Strategy Statement on an annual basis. This Strategy Statement includes those indicators that relate to the treasury management function.

The CIPFA Treasury Management Code defines treasury management activities as "the management of the organisation'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 consistence with those risks".

For the purpose of this strategy, treasury management includes the management of all capital market transactions in connection with the cash and funding resources of the Council. This covers all funds and reserves, including the Collection Fund, and includes the arrangement of leases.

The strategy includes broad principles, which provide the framework within which the Council's treasury management activities are conducted, together with detailed plans for the management of the Council's loans and investment portfolios. The strategy includes those indicators required by the CIPFA Treasury Management Code that relate to treasury management.

The treasury management service is an important part of the overall management of the Council's affairs. The prudential indicators in appendix 6 consider the affordability and impact of capital investment decisions and set out the Council's overall capital framework. The treasury management function is responsible for the effective funding of these decisions and together they form part of the process which ensures that the Council meets its balanced budget requirement under Section 32 of the Local Government Act 1992.

As per the requirements of the Prudential Code, the Council adopted the CIPFA Treasury Management Code at the Cabinet meeting of 26 February 2002. The CIPFA Treasury Management Code was initially revised in 2009, revised again in 2011 to reflect recent developments in the market place, the introduction of the Localism Act 2011 including housing finance reform and the introduction of the General Power of Competence. In 2017 CIPFA published a further revision to the Treasury Management Code. The Council has incorporated the changes from the CIPFA Treasury Management Code into its treasury management policies, procedures and practices. All treasury management activity will comply with relevant statute, guidance and accounting standards.

The Council's Financial Regulations (7.8) require the Deputy Chief Executive to report on treasury management activities and the exercise of treasury management powers is delegated to him. This strategy outlines the expected treasury management activity over the next three years along with the risks associated with this activity and how they will be managed.

An annual report on treasury management activities at the end of each year is presented to the Finance and Resources Committee in July and a mid-year monitoring report on treasury management activity is presented to the same committee in November each year.

2. Treasury Management Policy Statement

One of the requirements of the CIPFA Treasury Management Code is that the Treasury Management Policy Statement should include the Council's high level policies for borrowing and investments. These are set out in the Treasury Management Policy Statement shown in appendix 7a.

3. Treasury Management Objectives

The primary objective of treasury management operations will be to maximise the revenue resources available to the Council whilst ensuring the effective management of risks associated with treasury management activities in accordance with the following principles:

i) that the cost of borrowing is minimised commensurate with following a prudent funding policy

ii) that the most advantageous rates of return on investments are secured commensurate with the primary principle of maintaining the capital value of funds whilst ensuring sufficient liquidity

iii) that the Council maintains flexibility in its borrowing and lending portfolios

iv) that the Council manages its borrowings and investments as a combined portfolio in order to achieve the optimum net debt position

The sections below provide a summary of the principal activities anticipated during the period covered by the strategy.

4. Current Debt and Investment Position

The Council's current debt and investment position is as follows:

		Actual at 31 December 18	Estimate at 31 March 19
		£'000	£'000
Fixed Rate Debt	PWLB	79,788	79,780
	Market	3,000	3,000
Variable Rate Debt	PWLB	5	9
	Market	12,000	12,000
	Crematorium	576	475
Total Debt		**95,370**	**95,264**
Total Investments		**(22,475)**	**(13,000)**
Net Borrowing		**72,895**	**82,264**

The fixed rate debt shown above consists of fixed rate loans totalling £79.79m from the PWLB that are due to be re-paid in at least one years' time and a loan of £3.0 million at 4.19% from Barclays Bank that is due to mature on 4 February 2073.

The variable rate debt shown above relates to fixed rate loans from the PWLB, other public sector bodies or other institutions that are due to mature within one year and therefore likely to be replaced by further loans but at a different rate of interest from the current rate.

The Council has a £1.0 million loan from Tendring District Council at 0.75% that is due to mature on 25 March 2019. This has already been replaced with a £1.0 million loan from North West Leicestershire District Council for 181 days at 0.92% that commenced on 1 February 2019.

The crematorium debt relates to surplus cash balances of the Bramcote Crematorium that the Council invests on its behalf to generate a suitable return. This fluctuates in accordance with the Bramcote Crematorium's cash inflows and outflows. There is no other variable rate debt.

The Council's existing debt portfolio (including Bramcote Crematorium) is estimated to total £95.2 million at 31 March 2019 as shown above. The optimum debt level for the Council as defined by the CFR is estimated at £100.0 million at 31 March 2019 and therefore the estimated level of borrowing is below the optimum level.

As set out in section 10 below, the Council is permitted to borrow in advance of need given that certain criteria are met. The Council has loans totalling £12.0 million that are due to mature within the next 12 months. These loans may not necessarily be replaced with loans of a similar value when they mature and whether or not they are replaced will in part depend upon the Council's cashflow position at the time. In addition, the Council has a loan of £3.0 million that will not mature within the next 12 months. This loan is from Barclays Bank at an interest rate of 4.19% and is due to mature on 4 February 2073.

The majority of the investments should be regarded as the investment of the Council's revenue reserves, including the General Fund balance and the HRA balance, provisions and unapplied capital contributions.

5. Debt and Investment Projections 2019/20 to 2021/22

i) Debt Projections

The borrowing requirement comprises the expected movement in the CFR and any maturing debt that will need to be re-financed. The table below shows this effect on the treasury position over the next three years. The expected maximum debt position during each year represents the operational boundary prudential indicator and so may be different from the year end position. The expected debt levels need to approximate to the operational boundary.

External Debt	**2018/19 Revised**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Debt at 1 April	**98,486**	**95,360**	**98,734**	**105,215**
Additional/(Repayment of) Borrowing	(3,023)	3,572	6,519	3,495
Repayment of Annuities	(8)	(9)	(10)	(12)
Repayment (to)/from Bramcote Crematorium	(95)	(189)	(28)	53
Debt at 31 March	**95,360**	**98,734**	**105,215**	**108,751**

	2018/19 Revised	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Operational Boundary	**96,150**	**99,750**	**106,000**	**109,550**

With effect from 1 April 2004 debt has been expected to increase in line with the proposals within the capital programme. The capital programme assumes new borrowing of:

- £3,571,500 in 2019/20
- £6,518,500 in 2020/21
- £3,495,000 in 2021/22

The additional borrowing from 2019/20 to 2021/22 is respect of the General Fund capital programmes only. No borrowing is anticipated to be taken out to assist in financing the HRA capital programmes from 2019/20 and 2021/22. External debt is therefore expected to vary by the additional borrowing less the repayment of a number of annuity loans and adjusted for any changes in the anticipated level of borrowing from Bramcote Crematorium.

One of the primary aims of the treasury management strategy will be to raise new loans, where appropriate, equivalent to these values. Market conditions will be closely monitored in association with the Council's treasury management advisors to ensure the most appropriate timing of any new loans.

Amounts of £692,600 in 2019/20, £707,550 in 2020/21 and £1,074,200 in 2021/22 are to be set aside from the revenue accounts for the repayment of debt associated with General Fund capital expenditure, in accordance with statutory provisions. No minimum revenue provision (MRP) is to be charged on borrowing undertaking on the scheme to redevelop Beeston town centre until the scheme has been completed. Further details of the policy that underpins this are set out in section 13.

ii) Investment Projections

The table below highlights the expected change in investment balances.

	2018/19 Revised	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Investments at 1 April	13,175	13,000	12,400	11,250
Expected Change in Investments	(175)	(600)	(1,150)	(1,250)
Investments at 31 March	13,000	12,400	11,250	10,000

6. Housing Revenue Account (HRA) Self-Financing

The reforms of the HRA subsidy system mean that the Council has not had to pay an annual subsidy from the HRA to the government since 2011/12. However, the Council is required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government (DCLG).

The Determinations do not set out a methodology for calculating the interest rate to use. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Treasury Management Code recommends that the Council set out their policy in the Treasury Management Strategy Statement.

Whilst there are a number of different approaches for the apportionment of interest expenditure and income between the HRA and General Fund, the Council adopted the 'one pool' approach upon the commencement of HRA self-financing on 1 April 2012 and will continue to follow this approach in 2019/20. This involves having a single pool for all debt irrespective as to whether it arose pre or post HRA self-financing and whether or not debt can be explicitly attributed to either the HRA or the General Fund.

The 'one pool' approach is considered to be the easiest for the Council to manage from an administrative perspective and enables treasury risk to be managed for the Council as a whole.

Whilst the 'one pool' approach carries an element of interest rate risk as and when maturing debt needs to be replaced, given that HRA debt vastly exceeds General Fund debt and that no major debt replacement is anticipated for the new HRA debt within the first ten years, this risk is not considered to be significant.

Under the 'one pool' approach, interest on loans will be calculated in accordance with proper accounting practice. This will require interest to be apportioned between the HRA and the General Fund by applying the average interest rate on external debt to the relative HRA and General Fund CFRs.

Investment income will be apportioned to the HRA based upon the opening and closing HRA balances for the year and the interest rate used for calculating interest on loans.

7. Borrowing Activity 2018/19

The major element of the borrowing from the PWLB at 31 March 2018 was the loans totalling £66.446m taken out on 28 March 2012 to make the payment to the former Department for Communities and Local Government (DCLG) to enable the Council to exit the Housing Revenue Account (HRA) subsidy system and move to self-financing arrangements where the Council can support its housing stock from its own HRA income.

The borrowing from the money market at 31 March 2018 comprised of the following loans:

- A £2.0m loan from Vale of Glamorgan Council for 73 days at 0.50% that matured on 19 April 2018. This loan was replaced by two subsequent loans for £1.0m each from Fylde Borough Council and Craven District Council, both for 214 days, at 0.60%.

- A £2.0m loan from London Borough of Hounslow, originally taken for 2 years at 0.85%. This matured on 29 May 2018. This was half replaced by a £1.0m loan from Hyndburn Borough Council for 364 days at 0.87%. It was decided not to replace the other £1.0m.

- A £2.0m loan from South Northamptonshire Council for 273 days at 0.36%. This loan matured on 18 June 2018 and was not replaced.

- A £2.0m loan from Bolsover District Council for 273 days at 0.36% that matured on 29 June 2018. This loan was replaced by a £2.0m loan from Wealden District Council for 187 days at 0.65%. This matured on 2 January 2019.

- A £2.0m loan from Tendring District Council for 273 days at 0.35% that matured on 2 July 2018. This loan was replaced with a £2.0m loan from West Yorkshire Police and Crime Commissioners for 319 days at 0.80%. This loan is due to mature on 17 May 2019.

- A £2.0m loan from Wokingham Borough District Council for 254 days at 0.35% that matured on 8 August 2018. This loan was replaced on 31 July 2018 with a further £2.0m loan from Tendring District Council for 364 days at 0.75%. This loan is due to mature on 30 July 2019.

- A £1.0m loan from Tendring District Council for 181 days at 0.52% that matured on 28 August 2018. This loan was replaced with a £1.0m loan from Rushcliffe Borough Council at 0.75% for 364 days. This loan is due to mature on 27 August 2019.

- A £1.0m loan from Lancaster City Council for 364 days at 0.40% that matured on 28 September 2018. This loan was replaced with a £1.0m loan from Tendring District Council at 0.75% for 182 days. This loan is due to mature on 25 March 2019.

- A £1.0m loan from Hyndburn Borough Council for 364 days at 0.62% that matured on 19 December 2018. This loan was replaced with a £1.0m loan from Ryedale District Council at 1.05% for 365 days. This loan is due to mature on 19 December 2019.

- A £3.0m loan from Barclays Bank for 65 years at 4.19% that is due to mature on 4 February 2073.

The borrowing from Bramcote Crematorium at 31 March 2018 was a short-term investment of £688,456 with the Council by the Bramcote Crematorium Joint Committee.

8. Borrowing Strategy 2019/20 to 2021/22

Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long-term interest rates. The difference between short and long term interest rates that presently exists is expected to continue.

This difference creates an additional “cost” for any new long-term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment (which is sometimes referred to as the “cost of carry”). Whilst this can be assumed to be a reasonably short-term issue as borrowing is often for longer dated periods, it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Council’s wider financial position.

The PWLB remains an attractive source of borrowing given the transparency and control that its facilities provide. In addition, the Council is now able to borrow from the PWLB at the ‘certainty rate’ of 20 basis points below their usual borrowing rates i.e. 80 basis points above the corresponding gilt yield. HM Treasury (HMT) announced it will take legislative steps to abolish the PWLB in the future but that the HMT’s lending function will continue unaffected albeit under a different body so that local authorities will continue to access borrowing at rates which offer good value for money and in the same straightforward way as it is now.

The Deputy Chief Executive, under delegated powers, will take the most appropriate form of borrowing depending upon the prevailing interest rates at the time along with an appropriate evaluation of the accompanying level of risk.

The option of postponing borrowing and running down investment balances as has occurred in previous years will also continue to be considered. This would reduce counterparty risk and provide a hedge against the recently experienced fall in investment returns.

As indicated in section 5 above, the Council plans to borrow £3,571,500 to meet 2019/20 capital expenditure plans. The Council will adopt a flexible approach to its borrowing activity in association with its treasury management advisors. As set out in the Treasury Management Policy Statement, the following will be considered before any decision is made to undertake further borrowing:

- affordability
- maturity profile of existing debt
- interest rate and refinancing risk
- source of borrowing

In conjunction with advice from its treasury management advisors, the Council will keep under review all relevant issues associated with the following potential borrowing sources:

- internal borrowing
- PWLB and its successor body
- UK Municipal Bond Agency
- local authorities
- UK banks/ building societies
- money markets
- leasing

9. Debt Restructuring

The Council's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

The rationale for debt restructuring would be:

- to align long-term cash flow and debt levels
- to reduce investment balances and credit exposure via debt repayment
- to obtain savings in risk adjusted interest costs
- to rebalance the interest rate structure of the debt portfolio
- to change the maturity structure of the debt portfolio

A year after their commencement, the £66.446m of loans borrowed on 28 March 2012 for the HRA self-financing settlement became eligible for rescheduling. These loans were borrowed at one-off preferential rates made available specifically for the settlement. If the recent increases in gilt yields and PWLB redemption rates continue, there may be early loan repayment opportunities at close to par. Early repayment or rescheduling will first be assessed against the requirements of the HRA business plan and any future borrowing requirements.

The Deputy Chief Executive in association with the Council's treasury management advisors will continue to monitor the situation and evaluate potential opportunities where appropriate. After consultation with the Council's advisors, immediate action will be taken when annual revenue savings can be achieved and both a stable debt maturity profile and suitable interest rate structure can be maintained.

10. Short Term Borrowing

In common with previous years, the Council will continue to accept money on short-term notice from the Bramcote Crematorium. The estimated value of these funds at 31 March 2019 is around £475,300. Based on current cash flow projections, it is anticipated that no other short-term borrowing (other than that outlined in section 4 to replace existing maturing loans from other local authorities) will be necessary during the period covered by the strategy. Should such borrowing be required to meet any short-term cash deficits, the loans will be secured at the most favourable rates available.

11. Borrowing in Advance of Need

The Deputy Chief Executive may, under delegated powers, borrow funds in advance for use in future years. This may occur, for example, where a sharp rise in interest rates is expected and so borrowing early at fixed interest rates will be economically beneficial and help meet budgetary constraints.

Whilst the Deputy Chief Executive will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

As set out in the CIPFA Treasury Management Code, the Council is able to borrow in excess of the current level of borrowing need (CFR) up to the projected level in three years' time.

Risks associated with advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual treasury management report presented to the Finance and Resources Committee.

12. The Use of Financial Derivatives for the Management of Risks

The CIPFA Treasury Management Code includes a requirement that local authorities explicitly state in their Treasury Management Strategy Statement whether they plan to use derivative instruments to manage risks and, if so, to ensure that they have the legal powers to do so.

The General Power of Competence enshrined in Section 1 of the Localism Act 2011 can be interpreted as allowing local authorities to use standalone derivative instruments (i.e. those are not embedded into a loan or investment, for example embedded derivatives in LOBO loans). These include interest rate swaps, forwards, futures and options. The Council does not intend to use such standalone derivative instruments in the period covered by this strategy.

13. Treasury Management Limits on Activity

These treasury management indicators were previously prudential indicators. The purpose of these indicators is to contain the activity of the treasury function within certain limits and therefore reduce the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

As suggested in the CIPFA Treasury Management Code, all investments (whether fixed or variable rate) with a period of less than twelve months to maturity are regarded as variable rather than fixed rate investments as they are potentially subject to movements in interest rates when they mature. Likewise, any fixed rate borrowing that is due to mature within twelve months is regarded as being at a variable rate as the rate to be paid on any replacement loan could differ from the rate currently being paid.

i) Upper Limits for Fixed and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Interest Rate Exposures	Actual 31 March 2018 %	2018/19 Approved %	2018/19 Revised %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	84	100	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(0)	(25)	(25)	(25)	(25)	(25)
Net Fixed Exposure	84	75	75	75	75	75
Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	16	40	40	40	40	40
Upper Limit for Variable Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)	(100)
Net Variable Exposure	(84)	(60)	(60)	(60)	(60)	(60)

ii) Maturity Structure of Borrowing

This indicator highlights the existence of any large concentrations of all debt that will need to be replaced. It is designed to protect against excessive exposures to interest rate changes in any one period, with particular emphasis on the next ten years.

Maturity Structure of Borrowing*	Actual 31 March 2018	2018/19 Planned %		2019/20 Estimate %		2020/21 Estimate %		2021/22 Estimate %	
	%	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	16	0	50	0	50	0	50	0	50
12 months to 2 years	0	0	50	0	50	0	50	0	50
2 years to 5 years	10	0	50	0	50	0	50	0	50
5 years to 10 years	43	0	75	0	75	0	75	0	75
10 years to 20 years	25	0	100	0	100	0	100	0	100
20 years to 30 years	0	0	100	0	100	0	100	0	100
30 years to 40 years	3	0	100	0	100	0	100	0	100
40 years to 50 years	0	0	100	0	100	0	100	0	100
50 years+	3	0	100	0	100	0	100	0	100

* The Prudential Code requires indicators to be set for the maturity structure of all borrowing only. The above limits will apply to total borrowing.

iii) Upper Limit for Total Principal Sums Invested over One Year

This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. If an investment has to be re-paid before its natural maturity date due to cash flow requirements then, if market conditions are unfavourable, there could be an adverse impact upon the Council.

It is proposed that from 2019/20 to 2021/22 the Council retain the flexibility to invest a proportion of its available balances for a period in excess of 1 year should credit conditions continue to show signs of stabilisation or improvement. The upper limit for these investments based upon 50% of an estimated in-year average of total investments of £16 million is as shown below.

	2018/19 Approved £'000	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Upper Limit for Total Principal Sums Invested over 1 Year	6,000	6,000	8,000	8,000	8,000

14. Minimum Revenue Provision Statement 2019/20

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty upon local authorities to make a prudent provision for debt repayment. This is known as Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional Voluntary Revenue Provision (VRP) should it wish to do so. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing but the Council may also choose to do this should it wish to.

Guidance on MRP has been issued by the Secretary of State and local authorities are required to "have regard" to this guidance under section 21 (1A) of the Local Government Act 2003.

The four MRP options available are:

Option 1 – Regulatory Method
Option 2 – Capital Financing Requirement (CFR) Method
Option 3 – Asset Life Method
Option 4 – Depreciation Method

MHCLG regulations require full council to approve an MRP Statement in advance of each year. Any subsequent changes in year also require full council approval. The proposed policy for 2019/20 is set out below:

MRP Policy 2019/20

For capital expenditure incurred before 1 April 2008, the General Fund MRP will continue to follow the CFR method (option 2) and be based upon 4% of the CFR at that date.

For all unsupported borrowing incurred from 1 April 2008, the General Fund MRP will be based upon the estimated life of the assets which this borrowing is intended to finance (option 3).

No voluntary MRP is to be charged to the HRA in 2019/20. However, it is anticipated that the updated 30 year HRA business plan as presented to this meeting will allow the £66.446 million debt taken as part of the move to HRA self-financing to be re-paid by 2049/50.

15. Treasury Management Investments Strategy 2019/20 to 2021/22

i) Introduction

This strategy is written in accordance with the 2010 investment guidance issued under section 15 (1) (a) of the Local Government Act 2003.

The objectives of this strategy are to:

- facilitate investment decisions which ensure that the Council's investment sums remain secure
- ensure the liquidity of investments so that the Council has sufficient cash resources available to carry out its functions at all times
- achieve the maximum return on investments after taking into account security and liquidity

The Department for Communities and Local Government (now retitled as the Ministry of Housing, Communities and Local Government) also revised its Guidance for Local Authority Investments in 2018.

ii) Risk Benchmarking

The successful identification, monitoring and control of risk are integral to investment activity. In the current economic climate, counterparty security risk is the primary risk consideration and this generates a requirement for the approval and use of security and liquidity benchmarks.

Whilst yield benchmarks are currently widely used to assess investment performance, discrete security and liquidity benchmarks are relatively new additions to the member reporting requirements. However, it is recognised that these additional benchmarks are more subjective in their nature.

These benchmarks are simple targets (not limits) 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 positions and incorporate these within investment decisions. Any failure to achieve the benchmarks will be reported in the mid-year and annual treasury management reports presented to the Finance and Resources Committee.

The proposed benchmarks are:

(a) Security

The Council's maximum average credit risk score for the current portfolio is 8 (equivalent to an average credit rating of A- or equivalent).

(b) Liquidity

The Council seeks to maintain:

- a bank overdraft limit of £50,000
- liquid short–term deposits of at least £0.5m available within one week's notice
- a weighted average life benchmark of 3 months with a maximum of 6 months

(c) Yield

A local measure to be used as a yield benchmark is:

- returns on investments above the 7 day London Interbank Bid rate (LIBID).

iii). Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield and return will also be key considerations. After this main principle the Council will ensure that:

- it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the specified and non-specified investments 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 will also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Deputy Chief Executive will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Committee for approval as necessary. This criteria is separate to that which chooses specified and non-specified investments as it provides an overall pool of counterparties that are considered high quality and that the Council may use rather than defining what its investments are.

The CIPFA Treasury Management Code recommends that organisations should clearly specify the minimum acceptable credit quality of its counterparties, however they should not rely on credit ratings alone and should recognise their limitations. Credit ratings should only be used as a starting point when considering credit risk and organisations should make their investment decisions based on all ratings issued by the main credit rating agencies.

The Council also considers alternative assessments of credit strength such as information on corporate developments and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution as outlined in the annual Investment Strategy
- credit default swaps (where quoted)
- share prices (where available)
- corporate developments, news, articles, market sentiment and momentum
- subjective overlay

The only indicators with prescriptive values are credit ratings. The other indicators of credit worthiness are considered in relative rather than absolute terms.

The Council's maximum average credit risk score for its investment portfolio will be 7 (equivalent to an average credit rating of A- or equivalent). This is the proposed benchmark for security as described in appendix 8, section 2.

Creditworthiness information is provided by the Council's treasury management advisors on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria will be removed from the counterparty list. Details of any rating changes, rating watches (notification of likely changes), rating outlooks (notification of possible longer term change) are provided to officers almost immediately after they occur and this information is considered before placing any investments.

iv) Investment Counterparties

Surplus funds arising from day to day operations are invested based on the most up to date forecasts of interest rates and in accordance with the Council's cash flow requirements in order to gain maximum benefit from the Council's cash position throughout the year. Funds are separated between specified and non-specified investments as set out below.

The majority of the Council's surplus funds are currently invested in short-term unsecured bank deposits and money market funds. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2019/20. This diversification will represent a substantial change in strategy over the forthcoming year.

The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Government	N/A	N/A	£5m 2 Years	N/A	N/A
AAA	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA+	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA-	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
A+	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
A	£5m 13 Months	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 5 Years
A-	£5m 6 Months	£5m 13 Months	£5m 13 Months	£5m 13 Months	£5m 13 Months
Pooled Funds	£5m per Fund				

These counterparty types are defined as follows:

a. Banks Unsecured

These are accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies (other than multi-lateral development banks). These investments are subject to the risk of credit loss via a “bail-in” should the regulator determine that the bank is failing or likely to fail.

b. Banks Secured

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

c. Government

This includes loans, bonds and bills issued or guaranteed by the UK Government as well as regional and local authorities. These investments are not subject to “bail in” arrangements. Investments with the UK Government may be made in unlimited amounts for up to 50 years.

d. Corporates

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

e. Registered Providers

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

f. Pooled Funds

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

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

v). Investment Instruments

In accordance with relevant guidance, investments will only be placed with counterparties included on the Council’s approved list. Types of investments and institutions with which investments will be made include:

- banks and building societies. The Council will only use banks and building societies which are UK domiciled and have, as a minimum, a long term rating of A- (or equivalent) from the main credit rating agencies.
- the Council’s own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Money Market Funds (MMFs) – AAA rated

- UK government (including gilts, treasury bills and the Debt Management Account Deposit Facility)

- local authorities, parish councils etc.

- Variable Net Asset Value (VNAV) pooled funds which invest in cash instruments, bonds, equities, property or a combination of these (such as the Council's investment in the Local Authorities' Property Fund and the CCLA Diversified Income Fund)

The minimum long-term rating for banks and building societies of A- has now been adopted to incorporate those counterparties defined has having "high credit quality". This reflects changes to credit ratings as a consequence of 'bail in' regulations. Where a credit rating agency announces that a A- rating is on review for possible downgrade (sometimes known as a "rating watch negative") so that it may fall below the approved rating criteria, only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to "negative outlooks" as these indicate a long-term direction of travel rather than an imminent change of rating.

The only investments in building societies will be in those which are UK domiciled and have the minimum credit rating set out above. The Council will keep the situation with regards to unrated building societies under continuous review and could include them in the counterparty list in future investment strategies should it be considered that their inclusion would be consistent with the Council's objectives.

Money market funds (MMFs) will be utilised where appropriate. Whilst MMFs have the advantage of providing a high degree of diversification, the Council will seek to further manage risk by using more than one MMF where possible. The Council will also restrict its exposure to MMFs with low levels of funds under management by ensuring that any investments placed with an MMF will not exceed 0.5% of the net asset value of that particular MMF. In the case of government MMFs, the Council will ensure that exposure to a particular MMF does not exceed 2% of the MMF's net asset value.

The Council may lend or invest funds using any of the following instruments:

- interest bearing bank or building society accounts
- fixed term deposits and loans
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments
- shares in money market funds and other pooled funds

The Council's Treasury Management Practice note 1 (5) states that 'The Deputy Chief Executive will develop procedures to identify and manage credit and counterparty risks'. In addition to the above the Council will have due regard of the following:

a. use of additional information other than credit ratings. Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies 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, share prices (where quoted), negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.
b. time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as shown in the table in section 4 and will cover specified and non-specified investments.
c. some counterparties are subsidiaries of part of larger banking groups. As a result of the UK using regulatory powers of "bail-in" if counterparties encounter severe financial difficulties, group limits will be set at the same level as that of the main institution within the group*.*

As set out in appendix 7, the Council had placed £500,000 with Lloyds Bank for a 5 year period in order to participate in a Local Authority Mortgage Scheme (LAMS). Whilst this sum was earning a premium rate of interest for the Council it was returned at the end of the 5 year period and has been classed as capital expenditure as opposed to an investment.

vi) Liquidity of Investments

The period for which investments are placed will be based on the Council's cash flow forecasts and estimates of movements in interest rates. Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon.

There is a clear operational difficulty arising from the erstwhile financial sector position crisis. Ideally investments would be invested longer to secure better returns. However, uncertainty over counterparty creditworthiness in recent years suggests shorter dated investments would provide better security. Whilst some degree of stability has returned to the sector, it is proposed that the maximum period over which an investment could be placed is 2 years but only with those institutions that are viewed as presenting the least risk from within the counterparty list. This includes other public authorities, the Debt Management Office and British Clearing banks and their subsidiaries which achieve a minimum long-term rating of A-. This will be reviewed as appropriate during the year.

vii) Monitoring of Investment Counterparties

The proposed investment counterparty list is given at appendix 7b along with the ratings of these institutions as at 29 January 2019. Whilst this investment strategy covers the period from 2019/20 to 2021/22, it is proposed that the criteria set out above and the accompanying counterparty list take effect from the date of this meeting.

Inevitably the placing of investments with counterparties carries an element of risk. This strategy attempts to balance this risk and security against the need to maximise the return on investments.

Daily contact takes place with the external money market brokers identified within the Treasury Management Strategy and the credit rating of counterparties is monitored regularly. As set out in section 3 above, the Council receives credit worthiness information from its treasury management advisors as and when ratings change and the counterparty list is checked promptly.

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 Deputy Chief Executive and, if required, new counterparties which meet the criteria will be added to the list.

The only circumstance in which the Council may invest funds with a counterparty that does not meet the criteria set out in this strategy would be if the Council's own banker failed to meet these criteria. The Council currently banks with the Barclays Bank. This contract commenced on 1 April 2015 and will run for four years, with an option to extend for a further 2 years. Should Barclays Bank's long-term credit rating fall below the minimum level set out in section 5 above then the Council would only make investments with them for short-term liquidity purposes (overnight and weekend investments) and business continuity arrangements. The Council would then only place term investments with this institution if its long-term credit rating improved sufficiently to meet the Council's minimum criteria of A-.

viii) Changes to Investment Strategy

Due to the level of uncertainty in the financial markets, it is important that there is sufficient flexibility to enable changes to be made to the investment strategy at short notice should they be considered necessary by the Deputy Chief Executive.

Any such changes to the investment strategy will be made by the Chief Executive exercising standing order 32 powers following consultation Chair of the Finance and Resources Committee. A report setting out the detail behind these changes will then be presented to that Committee at the next available opportunity.

15. Local Performance Indicators

The CIPFA Treasury Management Code requires the Council to set local indicators to assess the performance of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators which are predominantly forward looking. Indicators should be considered within set risk parameters. Examples of performance indicators often used for the treasury function are:

- Borrowing – average rate of borrowing for the year compared with the average available
- Borrowing – average rate movement year on year
- Investments – Internal returns above the 7 day London Interbank Bid Rate (LIBID)
- Investments – average credit risk score of counterparties with whom interim investments have been placed
- Investments – average days to maturity of investments

Further details will be included in monitoring statements presented to the Finance and Resources Committee and in the mid-year and annual treasury management reports.

16. Conduct of Operations

All treasury management operations will be conducted in accordance with the Council's Treasury Policy Statement, Treasury Management Practice Notices and associated systems documentation. Monitoring reports will be included in the mid-year and annual treasury management reports.

17. Money Market Brokers

In accordance with the Council's Treasury Management Practice Notices, the majority of investments are made primarily via direct dealing with counterparties.

The external money market brokers to be used from 14 February 2019 are:

Tradition (UK) Ltd
Beaufort House
15 St Botolph Street
London
EC3A 7QX

Sterling International Brokers
1 Churchill Place
Canary Wharf
London
E14 5RD

Martins Brokers (UK) Ltd
20th Floor
1 Churchill Place
Canary Wharf
London
E14 5RD

King and Shaxson Ltd
6th Floor
120 Cannon Street
London
EC4N 6AS

18. Treasury Management Advisors

The Council reviewed its treasury management advice arrangements in 2014 and agreed a contract with Arlingclose to provide this service for the three years that commenced on 1 April 2014. This contract has been extended on a 12 month rolling basis and is currently due to expire on 31 March 2019. An exercise is to be undertaken to establish the service provider from 1 April 2019.

The services currently provided by Arlingclose include:

- technical support on treasury matters and capital finance issues
- economic and interest rate analysis
- debt services (including advice on the timing of borrowing)
- debt rescheduling advice surrounding the existing portfolio
- generic investment advice on interest rates etc.
- credit ratings/market information service comprising the three main credit rating agencies

Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

19. Member and Officer Training

The increased member consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. The Council will address this important issue by:

- facilitating workshops for members on finance issues as part of the Member Development Programme
- identifying officer training needs on treasury management related issues through the Performance Development and Review (PDR) appraisal process
- officer attendance at training events, seminars and workshops
- support from the Council's treasury management advisors

20. On-Line Banking

As technology advances, the range of facilities available for undertaking financial transactions increases. These facilities include on line banking and other internet based systems. These will continue to be examined carefully to assess whether they would be suitable for some of the Council's banking and treasury management transactions.

APPENDIX 7a

TREASURY MANAGEMENT POLICY STATEMENT

1. This Council defines its treasury management activities as:
"The management of the Council'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. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The Council will adopt a flexible approach to any borrowing that it may need to undertake in consultation with its treasury management advisors. All borrowing decisions will give appropriate consideration to:

    - affordability
    - maturity profile of existing debt
    - interest rate and refinancing risk
    - source of borrowing

5. All investment decisions made by the Council will seek to ensure that sums invested remain secure and that there is sufficient liquidity of investments to provide the Council with the necessary cash resources to allow the Council to carry out its functions at all times. Only after fulfilling the security and liquidity objectives will the Council seek to achieve the maximum return on these investments.

APPENDIX 7b

LIST OF CURRENTLY APPROVED COUNTERPARTIES FOR LENDING (as at 25 January 2019)

UK BANKS	**Short term**	**Long term**	**Short term**	**Long term**	**Short term**	**Long term**		
BANCO SANTANDER GROUP - Santander UK Plc - Abbey National Treasury Service	 F1 F1	 A+ A	 P-1 P-1	 Aa3	 A-1	 A	 £5m £5m	 £5m
Close Brothers Ltd	F1	A	P-1	Aa3			£5m	
Goldman Sach's International Bank	F1	A	P-1	A1	A-1	A+	£5m	
Handelsbanken PLC	F1+	AA			A-1+	AA-	£5m	
HSBC GROUP - HSBC Bank Plc	. F1+	 AA-	 P-1	 Aa3	 A-1+	 AA-	 £5m	
LLOYDS BANKING GROUP - Bank of Scotland Plc - Lloyds Bank	 F1 F1	 A+ A+	 P-1 P-1	 Aa3 Aa3	 A-1 A-1	 A+ A+	 £5m £5m	 £5m
Barclays Bank	F1	A+	P-1	A1	A-1	A	£5m	
Standard Chartered Bank	F1	A+	P-1	A1	A-1	A	£5m	
UK BUILDING SOCIETIES								
Coventry Building Society	F1	A	P-1	A2			£5m	
Leeds Building Society	F1	A-	P-2	A3			£5m	
Nationwide Building Society	F1	A+	P-1	Aa3	A-1	A	£5m	
OTHERS								
Debt Management Office (UK sovereign ratings)	F1+	AA		Aa2	A-1+u	AAu		
CCLA								£7.5m
Local authorities							£5m per LA	
Money Market Funds (AAA – rated)							£5m per MMF	
Variable Net Asset Value (VNAV) pooled funds							£5m per MMF	

APPENDIX 8

INVESTMENTS STRATEGY 2019/20 to 2021/22

1. Introduction

The production of an Investments Strategy is a new requirement of the Investment Guidance issued by MHCLG in January 2018. It is required to be approved by full Council before the commencement of the new financial year.

The Council can, in theory, invest funds for three main proposes:

(i) Because it has surplus cash as a result of its day to day activities. Such investments are known as treasury management investments and arise when income is received in advance of expenditure.
(ii) To support local public services by lending to or buying shares in other organisations. These are known as service investments.
(iii) To earn investment income to support the revenue budget where this is the primary purpose of the investment. These are usually referred to as commercial investments.

This Investments Strategy 2019/20 to 2021/22 focuses on the second and third of the categories of investment outlined above.

2. Treasury Management Investments

The Council typically receives its income in cash (such as form taxes, grants and fees) before it pays for its expenditure in cash (such as the monthly payroll or the payment of invoices from suppliers). It also holds reserves for future expenditure as well as collects council tax and business rates on behalf of other local authorities and central government.

The activities outlined above, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from CIPFA. The balance pf treasury management investments is expected to fluctuate between £12.5m and £25m during the 2019/20 financial year.

The contribution that treasury management investments make to the Council’s priorities is to support effective treasury management activities. The Council’s approach to treasury management investments is set out in the Treasury Management Investments Strategy 2019/20 to 2021/22 in section 15 of appendix 7.

3. Service Investments

Service investments can be in either loans or shares. Further details of the approach adopted by the Council are set out below.

(i) Loans

The Council does not lend money to any subsidiaries, suppliers, local businesses, local charities, housing associations or local residents to support local public services or stimulate local economic growth. The Council does, however, provide "soft" loans to some employees through a car loan scheme. The balance outstanding on these at 31 March 2018 was £109,243 and the interest paid by employees totals around £1,000 per annum. Monthly deductions for both principal and interest are made from the salaries of the employees with these loans and any risk of default is considered to be minimal.

(ii) Shares.

The Council does not invest in the shares of subsidiaries, suppliers and businesses to support local public services or stimulate economic growth.

The Council does, however, have a wholly owned Local Authority Trading Company (LATC) named Liberty Leisure that was incorporated on 1 October 2016. Liberty Leisure is a company limited by guarantee and its operations are overseen by a Board of Directors consisting of one Council elected member, two Council officers, an external appointee, a staff representative and the Managing Director of the company. Liberty Leisure was established, amongst other things, to:

- Provide leisure, sports, cultural and heritage services for the benefit of the public
- Ensure sustainability of services by maximising income and seeking all possible avenue of funding for the services
- Promote, maintain and improve access to suitable services, activities and facilities
- Improve health and well-being by promoting increased participation to reduce obesity, anti-social behaviour and the health inequality gap
- Promote jobs and strengthen the local economy

The Council maintains control over the company through retained decision making powers and through the scrutiny of the Leisure and Environment Committee which reviews the financial and operational performance of the company. The Council pays the company an annual management fee for the provision of the services outlined above and this will be £995,000 in 2019/20.

The Council also jointly owns Bramcote Crematorium in association with Erewash Borough Council. The operation is overseen by the Bramcote Bereavement Services Joint Committee although the management of all operations is undertaken by this Council. The Joint Committee pays a management fee for this arrangement.

Each year a distribution agreed by the Joint Committee is paid to the respective local authorities. In 2019/20 this will be £500,000 to each authority. This is fixed for the year and any failure by the Crematorium to meet their targets for 2019/20 will be reflected in the distribution for 2020/21.

4. Commercial Investments

Among the most common forms of commercial investments are property and loan commitments/financial guarantees. Further details of the approach adopted by the Council are set out below:

(i) Property

The Council does not presently invest in local, regional, United Kingdom wide or international commercial and residential property with the intention of making a profit that can be spent on the provision of local services. Any decisions to make such investments would be undertaken in accordance with the Capital Strategy 2019/20 to 2021/22 set out in appendix 6.

The purchase by the Council in May 2016 of the long-term lease in respect of an area of Beeston town centre already owned by the Council was for regeneration as opposed to investment purposes.

The development of Beeston town centre presently underway on the former multi storey car park and other land owned by the Council is also considered to be for the regeneration of the area to make it attractive for residents, visitors and businesses and not for single objective generating returns that can help underwrite the cost providing Council services.

The Council had no investment properties on its balance sheet at 31 March 2018 and a similar position is anticipated as at 31 March 2019 and 31 March 2020.

(ii) Loan Commitments and Financial Guarantees

Although they are not strictly regarded by many as investments due to no money changing hands until various conditions are met, loan commitments and financial guarantees carry similar risks to investments in property.

The Council has not made any such commitment and presently has no intentions of doing so. Any proposed changes will be reported to members for their consideration.

5. Investment Indicators

A new requirement of the Investment Guidance issued by MHCLG in January 2018 is the need for local authorities to develop quantitative indicators to allow elected members and the public to assess the total risk exposure resulting from the Council's investment decisions. The indicators for treasury management investments are set out in appendix 8.

If the Council decides to make commercial investments in property designed to generate revenue income and fund this through borrowing then the following indicators will be calculated and reported to members on an annual basis:

Indicator	**Definition**
Debt to Net Service Expenditure (NSE) Ration	Gross debt as a percentage of net service expenditure (where net service expenditure is a proxy for the size and financial strength of a local authority)
Commercial Income to NSE Ration	Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate net service expenditure
Investment Cover Ratio	The total net income from property investments compared to the interest expense
Loan to Value Ratio	The amount of debt compared to the total asset value
Target Income Returns	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.
Benchmarking of Returns	As a measure against other investments and against other council's property portfolios
Gross and Net Income	The income received from the investment portfolio at a gross level and net level (less costs) over time
Operating Costs	The trend in operating costs of the non-financial investment portfolio over time as the portfolio of non-financial investments expands
Vacancy Levels and Tenancy Exposures for Non-Financial Investments	Monitoring vacancy levels (voids) to ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is as productive as possible

These indicators are based on those set out in MHCLG's Investment Guidance. Should the Council make such non-financial investments then suitable target values will be attached to these indicators and progress will be monitored accordingly. Further indicators will be developed, target set and progress reported as necessary.