Appendix 3

Treasury Management Policy Statement 2019/20

Broadland District Council defines the policies and objectives of its treasury management activities as follows:

(1) The authority 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 the risk implications for the authority.

(2) The 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

(3) The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

(4) The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

**'Investments' in the definition above covers all the financial assets of the authority, as well as other non-financial assets which the authority holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management.

In summary, the Council's Treasury Management objectives are (in order of importance)

<u>Investments</u>

(1) Security of capital

(2) Liquidity (access to funds)

(3) Consistency of return

(4) Enhanced return

<u>Borrowing</u>

(1) Affordability

(2) Maturity profile

(3) Interest Rate and Refinancing Risks

(4) Borrowing Source (to ensure the Council retains, as far as is practicable, flexibility over its borrowing)

Last reviewed February 2019

Appendix 4

Treasury Strategy Statement 2019/20

1 INTRODUCTION

1.1 The Treasury Strategy Statement sets out the aims and limits of the Treasury function for the 2019/20 financial year. It is based on the Head of Finance and Revenue Services' view on interest rates, as informed by forecasts provided by the council's treasury advisors (Capita), at the time of writing.

2 CURRENT PORTFOLIO POSITION

2.1 The authority is currently debt free, although the current Medium Term Financial Plan (MTFP) predicts the possibility of borrowing to finance the proposed Capital Programme. The Capital Programme and the MTFP will require a draw on cash reserves over the next five years but the authority will still be a net investor over this period.

2.2 Some town and parish councils and a local charity have occasionally deposited funds with the authority to assist with their cash flow. At 31 January 2019, third party deposits amounted to £481,000.

2.3 At 31 March 2019 the Council anticipates its investments (net of third party deposits) to be:

	£m
Externally Managed Funds (Pooled Funds)	13.0
Banks and building societies	15.0
UK Government Gilts	0.0
Total	**28.0**

3 TREASURY LIMITS FOR 2018/19

3.1 Under the Prudential Code liabilities such as committed lease payments and bank overdrafts are classed as external debt. As at 31 March 2018, the authority had £325,000 in capital liabilities, all relating to nominal embedded finance lease repayments, of which £205,000 was due within twelve months.

3.2 The authority is required to set limits on the level of external debt it is able to carry at any one time.

Limits on external debt	2018/19	2019/20	2020/21	2021/22
		Estimate		
Authorised limit	£6m	£6m	£6m	£6m
Operational boundary	£4m	£4m	£4m	£4m

3.3 Council should be advised at the earliest opportunity if the Operational Boundary is exceeded. The authorised limit must not be exceeded without formal agreement in advance by Council.

3.4 The authority is also required to set limits on its exposure to fixed and variable interest rates, to the maturity structure of its borrowing and the total amounts invested for initial terms of more than 364 days. As the authority is aware of the changing economic situation at the moment, it is minded to keep these limits as flexible as possible to take advantage of the best opportunities as they present themselves. These limits are therefore set as follows;

Upper limits	2018/19	2019/20	2020/21	2021/22
Fixed rate exposure	100%	100%	100%	100%
Variable rate exposure	100%	100%	100%	100%
Total principal sums invested for initial terms over 364 days	A maximum of £10m medium term (up to 5 years) and £5m long term (up to 10 years)			

3.5 If the authority decides to take up long-term debt to finance a major capital project in the future, it will discuss the matter with its treasury advisors to determine the best option in terms of repayment pattern, term and whether fixed or variable rates would be more efficient. As debt is likely to consist of one loan, it is not possible to set meaningful limits on the authority's debt maturity profile in advance.

3.6 The authority is required to calculate the ratio of its financing costs to its net revenue stream. Financing costs are broadly defined as the net of the return on investments and other financial assets, against the payments made on debt and similar financial liabilities. This is a measure of the authority's ability to meet any debt payments from its revenue. An increasing positive figure indicates an increasing inability to meet such payments. As Broadland is a net investor, its ratios are negative, and are relatively stable.

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Ratio of Financing Costs to Net Revenue Stream	(1.61%)	(0.06%)	(0.42%)	(0.90%)

3.7 The updated Prudential Code (2017) states that in order to demonstrate that authorities take capital expenditure and investment decisions in line with service objectives and properly take into account stewardship, value for money, prudence and sustainability authorities should have in place a capital strategy that sets out the long term context in which capital expenditure and investment decisions are made. Broadland District Council maintains a regularly updated Capital Strategy (most recent iteration October 2018).

3.8 The authority's Capital Programme is a major influence on its expenditure. The total expenditure on the 2017/18 Capital Programme was £1.182m, of which £0.208m was funded from revenue sources. The revenue budgets within the current MTFP include the funding needs of the following Capital Programme:

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Capital programme	1.452	1.234	1.113	1.169

3.9 The Capital Financing Requirement (CFR) represents the authority's need to finance capital expenditure by means of borrowing or other long-term liability arrangement such as a finance lease. It is not necessarily matched by a corresponding external debt, as it may have been funded from the authority's own resources. The actual CFR for 31 March 2018 and the estimated CFRs for future years are as follows:

CFR as at 31st March:	**2018 £'000**	**2019 £'000**	**2020 £'000**	**2021 £'000**
CFR	325	120	0	0
Gross External Debt (Long Term)	120	0	0	0

3.10 The CFR is a key indicator of prudence. In order to ensure that debt will be only for a capital purpose over the medium term, the local authority should ensure that 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 the current and next two financial years.

3.11 The Head of Finance and Revenue Services reports that the authority had no difficulty in meeting this requirement in 2017/18, and that there is no difficulty envisaged for the current or future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

4 ADVISORY SERVICES

4.1 The Council employs a professional treasury management advisor to provide the following services:

(1) Advice on counterparty credit worthiness

(2) Provision of economic and interest rate forecasts

(3) General treasury management and capital financing/borrowing advice and updates

(4) Investment advice and a monitoring service on the performance of the council's externally managed funds

(5) Advice on compliance with treasury management codes and practice

4.2 The current provider of treasury advice services is Capita Treasury Services. Their contract runs from 1 April 2017 to 31 March 2020.

5 INTEREST RATES

5.1 The budget for 2019/20 assumes a return on investments of 0.5 percent, based on current rates for short-term investments plus a prediction of a greater level of investment in longer term investments. Longer terms attract a higher rate of interest; however, the authority is aware that the risk of counterparty default is also higher and will consider all such investments with regard to the risk of losing all or part of the principal sum. Market rates are currently priced with a view that Base Rate will remain low for the foreseeable future.

5.2 The provisional funding settlement predicts that central Government support will be removed by 2020/21, leaving all local authorities to rely on their own resources. The predicted draw on reserves to fund the authority's services and the consequent reduction in the level of investments will have an effect on investment income. Emphasis will be laid on increasing the return on the surplus funds left to invest without increasing the risk of loss of capital.

6 INVESTMENT STRATEGY

6.1 Approximately half of the Council's short term surplus cash is managed by three Pooled Fund managers, two appointed in 2011 and one in 2012.

6.2 The remainder of the available surplus cash is managed in-house as short-term investments, to accommodate operational cash flow requirements.

6.3 The authority is required to adopt an Annual Investment Strategy at the start of the financial year, with approval by Council. The Investment Strategy for 2019/20 is set out as Appendix 3.

7 BORROWING STRATEGY

7.1 The current MTFP includes the need to find efficiency savings and income generation schemes within the next five years. Alongside this requirement, the authority has included a budget for potential borrowing to fund any major invest to save schemes. If this becomes necessary, advice will be sought from the authority's treasury advisors on the most efficient form of borrowing.

7.2 The difference between interest payable on debt and interest offered for short-term investments means that borrowing more than required or in advance of need incurs additional cost. Although the use of internal resources in lieu of borrowing is the most cost effective means of financing capital expenditure at present, alternative means of financing will be assessed as the need arises.

7.3 The Prudential Code for capital expenditure allows for authorities to take on debt to fund capital expenditure, provided that the implications of affordability, sustainability and prudence are fully considered. Should the need to borrow arise, these assessments will form part of the decision process.

8 ANNUAL MRP STATEMENT

8.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) and Guidance on Minimum Revenue Provision (MRP) requires Council to approve a statement of its MRP policy in respect of the forthcoming financial year, indicating which of the four options set out in the Guidance are to be followed in the financial year:

Option 1: Regulatory Method

Option 2: CFR Method

Option 3: Asset Life Method

Option 4: Depreciation Method

8.2 The Council has adopted Option 3 as its policy for 2019/20.

8.3 MRP in respect of leases brought on balance sheet under the IFRS-based Local Authority Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

9 REPORTING ON THE TREASURY OUTTURN

9.1 The Head of Finance and Revenue Services will report to the Cabinet on treasury management activity and performance as follows:

(1) Activity against the Strategy approved for the year, a mid-year and

year-end review of treasury activity.

(2) An outturn report on its treasury activity no later than 30 September after the financial year end.

(3) Cabinet will be responsible for the scrutiny of treasury management activity and practices.

10 TRAINING

10.1 The CIPFA TM Code requires the Head of Finance and Revenue Services to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive training that enables them to understand fully their roles and responsibilities.

10.2 Any new Member with treasury management responsibilities will be required to receive training. This has been provided in recent years by our treasury advisors, and has proved effective and popular.

10.3 Officers dealing with treasury management issues are encouraged to attend workshops run by the Council's treasury management advisors.

11 USE OF FINANCIAL INSTRUMENTS FOR RISK MANAGEMENT

11.1 Local authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the authority does not intend to include derivatives within its investment options.

11.2 Should this position change, the authority would develop a detailed and robust risk management framework governing the use of derivatives. Including derivatives into the treasury framework would be deemed a change in strategy and would be brought to Council for prior approval.

12 MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS

12.1 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries and investment in property portfolios. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

Appendix 5

Annual Investment Strategy 2019/20

1 INTRODUCTION

1.1 The Council has incorporated the best practice recommendations within CLG's 2010 'Guidance on Local Government Investments' ("Guidance") and CIPFA's 2011 'Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes' ("CIPFA TM Code") into this Strategy.

2 INVESTMENT PRINCIPLES

2.1 All investments will be in sterling.

2.2 The general policy objective for this Council is the prudent investment of its treasury balances.

2.3 The Council's investment priorities are primarily the security of capital, with the liquidity of its investments a secondary consideration. The rate of return on capital will be subordinate to security and liquidity at all times.

2.4 The Council will aim to achieve the optimum return on its investments, after considering the proper levels of security and liquidity.

2.5 Borrowing with the sole intention of investing or on-lending to make a return is unlawful. The authority will not engage in such activity.

3 SPECIFIED AND NON-SPECIFIED INVESTMENTS

3.1 An investment is a specified investment if it meets all of the following criteria:

- The investment and any related payments are denominated in sterling
- It is due or can be demanded to be repaid within twelve months
- It is not defined as capital expenditure by virtue of regulation
- It is made with a body of high credit quality as defined in 3.2 and 3.3 below, or with the UK Government, a local authority or a parish council.

3.2 A counterparty will be judged to be of high credit quality if it holds a credit rating from at least one of the credit rating agencies as follows:

- Short-term F1 or long-term A- (Fitch) or

- Short-term P1 or long-term A3 (Moody's) or
- Short-term A1 or long-term A- (Standard & Poor's)
- Short-term rating AAA or equivalent for Money Market Funds (MMFs).

The authority will use UK institutions and those from countries with a minimum sovereign rating of AA- from at least one rating agency.

3.3 Organisations with no credit rating or an insufficient credit rating may be included, subject to assessment by other criteria;

- Building societies that do not meet the criteria in 3.2 above may be considered for use if their assets are valued at a minimum of £3 billion. Such institutions will be added to the counterparty list only after consultation with the authority's treasury advisors.
- Part-nationalised banks can be included, subject to discussion with our treasury advisors. Should the bank subsequently be de-nationalised, any investment will be considered on the basis that it meets the ratings in 3.2.
- Property Funds will be considered after relevant due diligence has been undertaken in conjunction with our treasury advisors.

3.4 The authority will take into consideration additional indicators as available e.g. share price, credit default swap price, corporate developments and market sentiment towards the counterparties.

3.5 The Investment Strategy for 2019/20 takes into account the changes in rating methodology undertaken by all three ratings agencies during the course of 2015, in response to the removal of implied sovereign support.

3.6 The CIPFA TM Code states "Authorities are advised to have regard to the ratings issued by all three rating agencies – Fitch, Moody's and Standard & Poor's". Accordingly, where counterparty achieves the minimum credit rating from one ratings agency, the authority will consider the ratings given to that body by the other two.

3.7 The Council is authorised to invest in the following instruments in 2019/20

- UK Government Gilts
- Treasury Bills (short-dated Government backed borrowing)
- Debt Management Agency Deposit Facility (UK Government backed)
- Term deposits with UK Government or local authorities
- Municipal Bond Agency
- Sterling denominated bonds issued by European governments or multinational development banks
- Deposits with banks and building societies which have "high credit quality" (see 3.2 and 3.3 above)

- Certificates of Deposit issued by banks and building societies
- Commercial Paper
- Corporate Bonds
- Property Funds
- Property Unit Trusts
- Money Market Funds with acceptable credit ratings (see 3.2 above)
- Other Money Market and Collective Investment Schemes (pooled funds)

Investments will be in sterling, will not be capital expenditure and credit quality limits will be observed. As such, they will be specified investments unless they are deposits made for fixed terms exceeding twelve months. Limits on non-specified investments are detailed in paragraph 5.3 below.

If investing in property funds a third party property fund selection service would be employed at a cost of £7,500 per annum, to support the Authority in deciding key objectives for the appointment of a manager, drafting questionnaire, collating responses and review,

4 SECURITY OF CAPITAL

4.1 The authority employs professional consultants to advise on matters relating to their treasury activities in the context of local and global economic matters. The current treasury advisor is Capita Treasury Services. The authority will monitor the quality of advice; however, the pool of established and respected treasury consultants is small, such that there is currently only one alternative provider available.

4.2 The Council will maintain a counterparty list based on the credit criteria in sections 3.2 and 3.3 of this Appendix. Exposure to overseas institutions will be discussed in advance with our treasury advisors.

4.3 The Council receives creditworthiness advice from its treasury consultant on a regular basis. Although it takes such advice into account in all considerations involving security of investments, in all matters of judgement the ultimate decision lies with the Head of Finance and Revenue Services.

4.4 The Council's lending list will be checked at least monthly. If a ratings downgrade or change in other creditworthiness indicators result in a counter-party no longer meeting the Council's minimum criteria, no new investments will be made with that organisation. If an organisation's rating is upgraded so that it fulfils the Council's criteria, the Head of Finance and Revenue Services will have the discretion to include it on the lending list.

4.5 Where an organisation holding investments for the authority either falls below, or is deemed to be in danger of falling below the minimum thresholds detailed in 3.2 and 3.3 above, the authority will consider whether to recall its funds immediately or to maintain a watch during the remainder of the investment's

4.6 Should the authority's banking services provider fall below the minimum credit criteria set out in 3.2 and 3.3 above, the Head of Finance and Revenue Services will ensure that reasonable measures are put in place to keep the authority's operational cash balances secure. These will include a consideration of any contingency banking arrangements and assessments of the need to procure an alternative banking services provider before the end of the current contract.

5 LIQUIDITY

5.1 Based on its cash-flow forecasts, the Council anticipates that its surplus cash balances will range between £23m and £40m during 2019/20. This will be dependent on the timing of expenditure on capital schemes and other large and unpredictable items.

5.2 The authority has reviewed its investment portfolio with the assistance of its treasury advisors. This review took account of the level of balances, the need for liquidity, spending commitments, provision for contingencies and the feasibility of possibility that the funding situation may be better than previously anticipated. The review reveals that there may be some scope for medium and longer term investments.

5.3 Investments may be made for longer initial terms to take advantage of higher returns, with the security of capital and the need to fund operational activities prevailing as the primary objective. Unspecified investments will be made only after significant due diligence has been undertaken in conjunction with our treasury advisors and the Head of Finance and Revenue Services has been consulted. Term and monetary limits on long-term (unspecified) investments will be as detailed below;

Limits on long-term deposits	**Fitch Long Term Rating (or equivalent)**	**Monetary limit**	**Term limit**
Banks	A+	£5m	3 years
Banks – part nationalised		£5m per group	2 years
Property Funds	As advised	£5m per fund	No limit
Local authorities	N/a	£5m	5 years
Maximum invested in total for terms exceeding twelve months	A maximum of £10m medium term (up to 5 years) plus £5m long term (up to 10 years)		

6 INVESTMENTS DEFINED AS CAPITAL EXPENDITURE

6.1 The acquisition of share capital in any body corporate is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as ‘non-specified investments’.

6.2 Investments in bonds issued by multilateral development banks or money market funds (defined in SI 2004 No 534 and subsequent amendments) will not be treated as capital expenditure. Additionally, investments in shares issued by real estate investment trusts (as defined in SI 2007 No 573) and the acquisition of shares in an investment scheme approved under the Trustees Investments Act 1961 (as defined in SI 2010 No 454) will not be treated as capital expenditure.

6.3 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure. Loans by this Council to local housing associations or other companies will be clearly identified as to their purpose, i.e. treasury or policy. Appropriate due diligence will be undertaken before any loan or financial assistance is provided.

7 PROVISIONS FOR CREDIT-RELATED LOSSES

7.1 If any of the Council’s investments appeared at risk of loss due to default (i.e. this is a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

8 TRAINING

8.1 Officers invited to join the treasury management team will have been recruited through the Council’s rigorous selection process, and have proved their competence through their work and qualifications. They are required to undergo further training; theoretical training provided by our treasury advisors, and practical training, provided by experienced colleagues.

8.2 Officers are encouraged to attend external workshops, to discuss matters with our treasury advisors and to network with their peers in other authorities on a regular basis.

9 EXTERNAL CASH FUND MANAGEMENT

9.1 The Council’s externally managed funds are invested in collective investment schemes (pooled funds); the type and range of investments the individual fund can use are described in the fund’s prospectus.

9.2 The performance and suitability of the three pooled funds are monitored by the Council’s treasury management advisor and the Head of Finance and

Revenue Services.

10 BORROWING IN ADVANCE OF NEED

10.1 The Guidance requires authorities to consider their policy concerning borrowing in advance of need.

10.2 The authority has considered the additional costs inherent in carrying debt held in advance of need against the advantages of fixing debt at the current low rates, and has determined that their policy is to borrow as close to the time of requiring the funds as possible.

11 SCRUTINY AND REPORTING

11.1 As required by the revised CIPFA Treasury Management Code, the Council will prepare as a minimum a mid-year and end of year outturn on its treasury activity, including investment activity.

11.2 Additionally, as required by the revised Code, Cabinet will be responsible for the scrutiny of treasury management activity and practices.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe of at least 20 years
- ensuring that the capital strategy is prudent, sustainable and affordable in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investment so that the authority des not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

    - *risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investment: and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
    - *reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
    - *training and qualification (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*