STRATEGY / POLICY FRONT COVER

**Name of Strategy / Policy:** Treasury Management Strategy

**Date last updated:** February 2019

**Date last revised and reasons for revision:**

February 2019 – the Strategy has to be approved by Council annually and has been updated to take account of the changes in the Code of Practice for Treasury Management in the Public Services issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), updated in 2017.

**Links to Council Priorities:**

| Priority | Linked Yes / No? |
|---|---|
| **Public Health & Well-Being** | **No** |
| **Environment** | **No** |
| **Transforming Our Community** | **Yes** |
| **Efficient & Effective Customer-Focused Services** | **No** |

**Links to Other Strategies and Policies**

*Financial Planning and Capital Strategy* (incorporated in the *Policy Framework and Budget Setting for 2019/20).*

**Action Plan in this document?**

Implementation of the 2018 MHCLG Investment Guidance that includes sections on non-financial investment, risk assessment, borrowing in advance of need and proportionality.

**Name of lead officer responsible for implementing the action plan:**

Chris Mills is responsible for the Strategy and for ensuring adequate monitoring and reporting.

**Name of lead Member and Member body responsible for monitoring implementation of the action plan:**

Councillor Jeffrey Stanley – Cabinet Member for Finance, Policy and Resources.
Audit Committee and Cabinet receive mid-year and annual reports.

**Equality impact assessment undertaken?** No

**Sustainability appraisal undertaken?** No

**Policy register on S Drive updated?** Yes

# Castle Point Borough Council

# Treasury Management Strategy for 2019/20

Produced by: Financial Services Manager.

Subject to Annual Review

**Approved by:**

- Audit Committee: January 2019
- Cabinet & Council: February 2019

# 12 Treasury Management Strategy

**Definition of Treasury Management**

1 Treasury management is:-
*"The management of the organisation's 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 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMP's) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Strategic Director (Resources), who will act in accordance with the Council's policy statement and TMP's and CIPFA's Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

**Treasury Management Strategy for 2019/20**

3 The Strategy has been formulated after considering the advice of the Council's consultants, Link Treasury Solutions Ltd. trading as Link Asset Services (Link). All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

**Balanced budget requirement**

4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

**Brexit, economic uncertainty and interest rates**

5 It will be some time until it is clear what the country's trading arrangements will be with the EU and rest of the world post Brexit, and consequently it is likely there will be prolonged economic uncertainty.

6 The Bank of England base rate started 2018/19 at **0.50%** and was increased in August 2018 to **0.75%**. Growth in the UK economy is expected to remain low and Link expects five **0.25%** increases in the base rate over the next three years and that rates may hit **2.00%** by March 2022. It is expected that the 50-year Public Works Loan Board (PWLB) long-term rate for maturity loans will be in the range of **2.80%** to **3.10%** during 2019/20.

7 The Council adheres to strict investment criteria. It is anticipated that investments will continue to have an overall short-term average maturity (less than 3 months). As it remains difficult to predict longer-term rates accurately, the interest rates used to forecast investment income for the Council's budget process remain prudent. The Council may also be restricted in where it can invest funds.

Officers will continue to seek the best return possible whilst always complying with the Council's policies and procedures and without compromising security and liquidity.

**Current debt position and requirements for 2019/20**

8 A summary of external debt that is expected to be outstanding at 31 March 2019 is as follows:-

***Table 12.1 External debt outstanding***

| ***Source*** | **Total at 31/03/19 £000's** |
|---|---|
| Public Works Loan Board – General Fund | 5,250 |
| Public Works Loan Board – Housing Revenue Account | 36,451 |
| **Total** | **41,701** |

9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **3.70%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and also the unexpired period at the time of repayment.

10 The proposed programme of capital expenditure due to be approved by Council in February 2019 is not currently anticipated to trigger a requirement for new borrowing in 2019/20. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.

11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is the difference between the Capital Financing Requirement (CFR) and the level of external borrowing. At the end of 2019/20 this is expected to be **£1.5m.** This is a very low proportion of the total investments and debt and is, in the opinion of the S151 Officer and Link, a satisfactory situation financially. This position is called moderately "under-borrowed". If external debt exceeded the CFR then the Council would be "over-borrowed". The position will fluctuate from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement") monitors and reports on this position.

**Borrowing Strategy**

12 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result the Council will take a cautious approach to its Treasury Management Strategy.

13 If a need to borrow should arise, the Strategic Director (Resources), under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.

14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore the financial impact on the longer-term budget positions for both the General Fund on the Medium Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the impact of changes in Central Government policies including the 4 year rent reductions, as detailed within the separate HRA budget setting report.

15 The PWLB periodically allows local authorities to register for a preferential “certainty rate” for borrowing, which is below the standard rate. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows them to access the preferential rate should the need arise. Although there are no current plans to borrow, the Council routinely registers for the preferential rate.

16 The weighted average maturity of the Council’s General Fund debt is long at **35 years**, and none of the debt portfolio is due to mature before 2052 so there is no refinancing risk in the foreseeable future. Subject to any future changes in borrowing or planned capital projects the General Fund will not be affected by increased borrowing margins in the short or medium term.

17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2021/22 and 2041/42. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1.0m** above the **£36.5m**. The autumn 2018 budget announced that, subject to final consultation, the borrowing cap would be removed, so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30 year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.

**Borrowing in advance of need**

18 The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director (Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.

19 MHCLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Strategic Director (Resources) does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:-

- It will be limited to no more than **£2m** of the expected increase in borrowing need (CFR) over the three year planning period; and
- The Council would not look to borrow more than 18 months in advance of need.

20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council’s Investment Strategy.

**Treasury management indicators**

21 The Council is required to calculate a number of Treasury Management Indicators as part of the Treasury Management Code of Practice. The indicators are reported in the following paragraphs.

**Borrowing maturity structure**

22 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:-

| *Table 12.2 Maturity structure of fixed rate borrowing* | | | | |
|---|---|---|---|---|
| ***Maturity*** | **General Fund** | | **Housing Revenue Account** | |
| | **Upper limit %** | **Lower limit %** | **Upper limit %** | **Lower limit %** |
| Within 1 year | 50 | 0 | 50 | 0 |
| Within 2 years | 50 | 0 | 50 | 0 |
| Within 5 years | 60 | 0 | 60 | 0 |
| Within 10 years | 80 | 0 | 80 | 0 |
| After 10 years | 100 | 0 | 100 | 0 |

**Borrowing – limits of fixed and variable rate exposure**

23 The Prudential Code also requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council's debt position net of investments. The proposed limits are as follows:-

| *Table 12.3 Upper limits of fixed and variable exposures* | | | | | | |
|---|---|---|---|---|---|---|
| | **2018/19 £m** | **2019/20 £m** | **2020/21 £m** | **2021/22 £m** | **2022/23 £m** | **2023/24 £m** |
| Upper limit – fixed rates | 47 | 47 | 47 | 47 | 40 | 40 |
| Upper limit – variable rates | (16) | (16) | (16) | (8) | (10) | (9) |

**Borrowing - interest rate sensitivity**

24 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios:-

- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low;
- a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

**Debt management objectives**

25 A summary of the Council's debt management objectives for 2019/20 is therefore as follows:-

- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
- to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption;
- to manage the debt maturity profile in order to avoid a high level of repayments in any one year;
- to borrow at the best interest rates achievable in relation to estimated future rates;
- to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
- if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
- to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
- to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

# 13 Investment Strategy

**Investment guidance**

1 This Council has regard to the MHCLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

**Investment principles**

2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:

- Firstly – the **security** of capital (protecting the capital sum invested from loss) and
- Secondly – the **liquidity** of its investments (keeping the money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. All investments will be in sterling.

3 Under the Guidance investments made by local authorities are classified into two main categories:

- Investments held for treasury management purposes.
- Other investments.

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2019/20 this amount will be **£50k**.

***Table 13.1 General Fund investment income***

| | 2018/19 £000's | 2019/20 £000's | 2020/21 £000's | 2021/22 £000's | 2022/23 £000's | 2023/24 £000's |
|---|---|---|---|---|---|---|
| Forecast investment income | 180 | 165 | 139 | 110 | 122 | 120 |

4 The Guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

**Financial Investments**

5 Under the Guidance Financial Investments fall in to three categories:

- Specified investments - high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year.
- Loans – for example to local enterprises, charities etc. The Council has none
- Non-specified investments – all others, may be less secure.

Specified Investment instruments identified for use in the financial year are listed in table 13.2 on the following page. Non-specified Investments are any other type of investment, i.e. not defined as Specified above, however the Council will have no Non-specified Investments in the foreseeable future.

**Non-financial Investments**

6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers, scrutiny by the

appropriate committee and approval by Council. The Council would have to carefully assess whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

**Liquidity**

7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2019/20 to range between **£21m** and **£36m**.

**Risk Assessment and Risk Appetite**

8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:

5 a very high average credit weighting for the portfolio, typically AA+
6 a diversified portfolio
7 short-term weighted average maturity typically 1 to 2 months
8 strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£6m**.
9 Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

**Credit ratings**

9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Table 13.2 also sets out the Council's minimum credit ratings that it considers appropriate for each category of investment. All funds are invested in institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

**Monitoring of credit ratings**

10 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Asset Services, also alert the Council to changes in ratings as they occur.

- 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.
- If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

| Table 13.2 Specified Investments for the Financial Year 2019/20 | | | |
|---|---|---|---|
| **Investment** | **Counterparty limit** | **Security / Minimum Credit Rating** | **Maximum period of investment** |
| **Debt Management Agency Deposit Facility** (DMADF) (this facility is at present available for investments up to 6 months) | No limit | The Debt Management Office is an agency of the UK Government | 6 months (DMO imposed time limit) |
| **Treasury Bills** issued by the UK Government (currently maximum 6 month duration) | No limit | The Debt Management Office is an agency of the UK Government | 364 days |
| **Term deposits** with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act) | The lesser of £5m or 33% of total investments | High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated) | 364 days |
| **Term Deposits** with institutions**,** part nationalised by the UK Government | The lesser of £5m or 33% of total investments | long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P) | 364 days |
| **Money Market Funds** (i.e. a collective investment scheme as defined in SI 2004 No 534) These funds do not have a maturity date | The lesser of £5m or 33% of total investments | Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings) | n/a (repayable on demand) |
| **Current accounts, notice accounts or term deposits** with credit-rated deposit takers (UK banks and building societies) | The lesser of £4m or 25% of total investments | long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P) | 364 days (Call deposits repayable on demand) |
| **Forward deals** with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit) | The lesser of £4m or 25% of total investments | long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P) | 364 days |
| **Certificates of Deposit** issued by UK institutions | The lesser of £4m or 25% of total investments | long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P) | 364 days |
| **Covered bonds** (maximum 364 day period includes borrower extension option) | The lesser of £4m or 25% of total investments | long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P) | 364 days |
| **Reverse repurchase agreements "repos"** (a form of secured lending with enhanced security) | The lesser of £4m or 25% of total investments | long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P) | 364 days |

- All Specified Investments listed above must be sterling-denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure.

**Country, group and sector limits**

11 The Council selects counterparties according to credit quality as well as the additional information in paragraph 14 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 16.

**Money Market Funds**

12 As has been the practice for a number of years, the Council continues to place a high proportion of its investments in Money Market Funds. By March 2019 the valuation method for the Council's Money Market Funds changed from constant net asset value to low volatility net asset value. Constant net asset value funds aim to preserve a stable value (such as £1) per share at which investors either subscribe or redeem, but under money market fund regulations they are being replaced with low volatility net assets funds where the underlying investments may have to be priced at market value, so potentially investors could get back slightly more or less than the £1 invested, although this is very unlikely with AAA-rated funds. The Council has assessed the implications, but it is not expected that there will be any significant impact on the value of investments.

13 **Markets in Financial Instruments Directive (MiFID)**

From 3rd January 2018 changes in legislation required the Council to opt up to professional status (rather than the default status of a retail client) with several of its counterparties to continue using a range of secure and diversified investments and not be limited solely to simple bank deposits. Organisations classified as professional have a good understanding of financial products but do not have the same protection as retail clients or ordinary consumers.

**Use of additional information other than credit ratings**

14 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 equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

**Bail-in legislation**

15 To avoid a Government bailout (i.e. where Governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation is now fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all of their deposits are converted into equity which could be worth less than the original investment. Consequently the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

**Internal stricter guidance**

16 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, taking into account information and advice supplied by Link Asset Services, the Council's treasury adviser. Changes to the internal guidance are approved by the Strategic Director (Resources).

**Use of derivative instruments**

17 Local authorities have the ability to use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently use derivatives, but should this change then the Treasury Management Strategy will be amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

**Investments defined as capital expenditure**

18 The acquisition of share capital or loan capital in any corporate body 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. As already stated, the Council does not currently intend to invest in Non-specified Investments.

19 Investments in Money Market Funds are not treated as capital expenditure.

20 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure, should it occur.

**Provisions for credit-related losses**

21 If any of the Council's investments appeared at risk of loss due to default (i.e. 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.

**Investment strategy to be followed in-house**

22 The Council's in-house managed funds are mainly cash flow derived. Due to the level of these funds and uncertainty in the current climate, the Council has no proposals to invest for periods over 364 days. Investments will accordingly 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).

**The Council's banking arrangements**

23 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31st March 2020 and so will be reviewed in 2019/20 in accordance with the Council's Contract Procedure Rules.

**Risk benchmarking**

24 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.

25 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 benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.

26 **Security** – The Council's maximum security risk benchmark for the current portfolio is:-

- A credit-rating score of **4.0** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.

27 **Liquidity –** In respect of this area the Council seeks to maintain:-

- Bank overdraft - **£200,000**. Higher overdraft facilities are available on request.
- Liquid short term deposits of at least **£1.0m** available with a day's notice.
- Weighted Average Life benchmark is expected to be up to 4 months, with a maximum of one year.

28 **Yield –** Local measures of yield benchmarks are:-

- Investments – returns above the 7-day LIBID rate.

**Treasury management adviser**

29 Link Asset Services, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. Officers hold meetings with the advisers at least twice a year, as well as ad-hoc when required for specific purposes, and receive various briefing documents on a continual basis. The four-year contract expires in 2022 and is regularly monitored to ensure the quality of advice and service is consistent with the schedule of services agreed with Link.

30 Whilst Link Asset Services provide support to the internal treasury function, under current market rules and the CIPFA Treasury Management Code, the final decision on all treasury matters remains with the Council.

**Member and officer training and experience**

31 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link Asset Services both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and an average of over 10 years' experience in local authority treasury.

**Investment activity reporting and publication**

32 Officers prepare a mid-year monitoring report on investment activity each autumn and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council's website.

**Code Update**

33 The 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes reaffirmed CIPFA's previous view that "throughout the public services the priority for treasury management is to protect capital rather than to maximise return." The Council complies with this view, as shown in the principles stated in paragraph 2 above.

34 The 2017 edition also included:

- Three key principles of Treasury Management, which are unchanged from the previous publication.
- Four clauses that CIPFA recommends all public services formally adopt. These are as stated in paragraph 2 of section 12 of this report.
- Twelve main practices, which cover matters such as risk management, performance measurement, decision making, approved instruments, cash flow management, and others. The requirements of these twelve practices feature throughout sections 12 and 13 of this report. Elements of these practices have been updated or expanded upon in the 2017 edition, but have no fundamental impact on current procedures undertaken by the Council's officers in performing their treasury management and investment duties.

**Changes in accounting standards**

35 IFRS9 Financial Instruments becomes effective from 2018/19 and replaces IAS 39 Financial Instruments: Recognition and Measurement. It specifies how an entity should classify and measure financial assets and financial liabilities and the CIPFA 2018/19 Code of Practice on Local Authority Accounting sets out how it applies to Councils. Officers have consulted with auditors and treasury advisers and made a thorough assessment of the changes required and they are not expected to be material to the Financial Statements, only affecting presentation and disclosure of the financial instruments and liabilities.