



## **TREASURY POLICY AND STRATEGY STATEMENTS 2013/14**

### **1. Purpose of Report**

- 1.1 The purpose of this report is to present to Audit Committee the 2013/14 Treasury Policy and Strategy Statements (including the Annual Investment Strategy) for information and comment. The Statements were approved by Full Council on 28<sup>th</sup> February 2013.

### **2. Background**

- 2.1 The Treasury Management Code of Practice requires local authorities to produce a Treasury Management Strategy and Policy Statement on an annual basis.
- 2.2 The Council adopted the original CIPFA Code of Practice on 13<sup>th</sup> February 2002, and this resolution is carried through to the revised Code. Therefore, the attached Treasury Policy Statement and Treasury Strategy Statements for 2013/14 have been prepared in compliance with the revised Code.

### **3. Treasury Policy Statement**

- 3.1 Attached at Annex A is the Council's Treasury Policy Statement (TPS) for 2013/14. This complies with the requirements of the Code and is submitted for approval.
- 3.2 This Statement defines the Authority's policies, objectives and approach to risk management of its treasury management activities. Further detail is contained within the Authority's Treasury Management Practices (TMPs) document. This is the key systems document for the Council in the operation, review and performance assessment of the Treasury Management function.
- 3.3 The Code recommends the TPS should include the organisation's high level policies for borrowing and investments and these requirements are addressed within the 2013/14 TPS.

### **4. Treasury Strategy Statement**

- 4.1 Attached at Annex B is the Council's Treasury Strategy Statement (TSS) for 2013/14. The statement includes information on:
  - Outlook for interest rates
  - Borrowing requirements and strategy (for the General Fund and Housing Revenue Account).
  - Annual Investment Strategy

- Approach to risk management
- Minimum Revenue Provision Statement for 2013/14

4.2 The TSS is based on the assumption that prevailing low interest rates will continue throughout the financial year.

4.3 The Council's borrowing strategy is to minimise interest costs without compromising the longer-term stability of the portfolio. This strategy incorporates two main themes; borrowing internally in lieu of external borrowing and undertaking a phased programme of long-term borrowing.

4.4 Following the implementation of housing self-financing, a separate strategy has been devised for the Housing Revenue Account (HRA). There is a limited borrowing requirement for the HRA in 2013/14 and therefore the strategy will be to use available resources rather than borrow externally.

## **5. Annual Investment Strategy**

5.1 In compliance with CLG Guidance the Council's investment priorities are security, liquidity and then yield.

5.2 As a result of the Council's strategy of internal borrowing, investment balances will remain depleted.

5.3 Officers will continue to evaluate alternative investment options in an attempt to mitigate the impact of falling investment returns.

## **6. Risk Implications**

6.1 The successful identification, monitoring and control of risks are an integral element of treasury management activity. The most significant risks to the Council are considered to be counterparty risk, interest rate risk and refinancing risk, and these are addressed in detail throughout the strategy.

6.2 In a further effort to enhance the management of risk, an additional Appendix is included within the strategy. This details how the Council seeks to mitigate treasury management risk and includes an assessment of probability and impact for each risk.

## **7. Recommendation**

7.1 Audit Committee to note the Council's Treasury Management Policy and Treasury Statements for 2013/14.

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**Annex A**

**TREASURY POLICY STATEMENT**

**2013/2014**

## **1 Introduction & Background**

- 1.1 The Treasury Management Code of Practice requires local authorities to produce a Treasury Management Strategy and Policy Statement on an annual basis.
- 1.2 The Council adopted the original CIPFA Code of Practice on 13<sup>th</sup> February 2002, and this resolution is carried through to the revised Code. Therefore, the Treasury Policy Statement for 2013/14 has been prepared in compliance with the revised Code.
- 1.3 Accordingly, the Council will create and maintain the following key documents in accordance with the revised Code of Practice and other relevant guidance:
  - Treasury Management Policy Statement, outlining the key objectives of its treasury management activities
  - Treasury Management Practices (TMP) setting out the manner in which the Council will seek to achieve these objectives, and prescribing how it will manage and control those activities
  - Treasury Management Prudential Indicators as prescribed within the Prudential and Treasury Management Codes
- 1.4 The Council will receive reports on its treasury management activities, including as a minimum, an annual strategy for the forthcoming year, an annual report after year end and interim quarterly reports.
- 1.5 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Full Council, and for the execution and administration of treasury management decisions to the Acting Assistant Chief Executive of Finance, Property and Information Services, who will act in accordance with the Council's Policy Statement and the CIPFA Code of Practice.
- 1.6 The Council nominates the Treasury Management Panel and the Audit Committee as being responsible for ensuring the effective scrutiny of the treasury management strategy and policies.
- 1.7 The Treasury Management Panel will meet on a monthly basis to monitor and review the Councils implementation of the Treasury Management Strategy and Policy. The Audit Committee will receive reports through which it will gain assurance regarding the effective implementation of the Strategy and Policy.
- 1.8 The Treasury Management function will be subjected to an independent internal audit review on annual basis as a designated core system and subject to external audit inspection as part of the final accounts review.

## **2. Policies and Objectives of Treasury Management Activities**

- 2.1 The Council defines its 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 consistent with those risks."*

- 2.2 The 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 include their risk implications for the organisation.
- 2.3 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 2.4 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 type of borrowing should allow the Council transparency and control over its debt.
- 2.5 The Council's primary objective in relation to investment remains the security of capital. The liquidity of the Council's investments and the yield earned remain important but secondary considerations.



**Annex B**

**TREASURY STRATEGY STATEMENT  
2013/14**

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- 7. Reporting**
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## **1. Background**

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to produce a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS) as required by the CLG Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year.
- 1.2 The Council is responsible for its treasury decisions and activity. The successful identification, monitoring and control of treasury management risk are integral to treasury management activity. Further information of the Council's management of treasury risks is included at Appendix A.
- 1.3 The CIPFA Code requires authorities to explicitly state their position on the use of derivatives to manage treasury risk. The Council's position on the use of derivatives is contained within Appendix B.
- 1.4 The following 2013/14 TMSS sets out how the Council intends to address the most significant risks. In order to implement the strategy and monitor treasury management activity, the Council has set up a Treasury Management Panel. Chaired by the Executive Director of Finance and Property and including the Cabinet and Deputy Cabinet spokespersons for Finance and Property Services, the TM Panel meets on a monthly basis to ensure that the approved treasury strategy is implemented.
- 1.5 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce a suite of Prudential Indicators. The Prudential Code requires that the Council's capital investment plans are affordable, prudent and sustainable. The Prudential Indicators for 2013/14 to 2015/16 are included at Appendix C together with a separate methodology paper outlining the factors taken into account when calculating the various indicators.

## **2. Outlook for Interest Rates**

- 2.1 The Bank of England Base Rate has remained at 0.5% since March 2009, and Arlingclose, the Council's Treasury Management Advisors, believe it may be 2016 before rates increase.
- 2.2 Growth remains weak and the Governor of the Bank of England, Mervyn King, has stated that the UK still has a 'long way to go' before achieving any sustained recovery.
- 2.3 The Eurozone is the UK's largest trade partner and the ongoing problems in the region continue to overshadow any signs of a recovery. The region has fallen into its second recession in three years as debt-laden peripheral sovereigns drag down the supposedly more stable core nations. The German economy is starting to stall and France has lost its AAA sovereign rating.

- 2.4 The situation in Greece remains critical as the country is on the brink of default after Eurozone ministers failed to authorise a further bailout. Whilst it is likely some agreement will be reached, the long term aim of the bailout is to place Greece on a sustainable debt path by 2020. Whether this is achievable is highly questionable.
- 2.5 Although a Greek exit from the Eurozone may not spell the end of the single-currency, it will set a precedent that such a thing can happen, opening the door for other beleaguered nations such as Spain and Italy. This is a key risk and could threaten the future of the Eurozone.
- 2.6 The Eurozone crisis has implications for both the borrowing and investment strategies of the Council. As a result of the UK's perceived 'safe-haven' status, gilt-yields remain at low levels, and as a consequence PWLB rates are comparably low. This continues to present an opportunity for local authorities to access relatively inexpensive long-term funding, the implications of which are discussed in the Council's borrowing strategy at paragraph 4.
- 2.7 With regard to the Council's investment strategy, until there is a credible solution to the Eurozone crisis, financial institutions will continue to experience stress. The Council has direct exposure to European institutions through its Money Market Funds, and the complex inter-connections between banks and sovereign states continues to be a concern. The Council's approach to limiting this investment risk is outlined in the Annual Investment Strategy at paragraph 5.

### **3. Debt Split – Two Pool Approach**

#### **Background**

- 3.1 Following the reform of the HRA Subsidy system, on 1st April 2012 the Council notionally split each of its existing long-term loans into General Fund (GF) and HRA (HRA) pools.
- 3.2 This split was on an approximate ratio of 1:1.3 (GF : HRA) and included all long-term fixed and variable rate debt, from both the PWLB and market sources. The HRA was apportioned debt up to the value of the HRA Capital Financing Requirement (£269M) with the remaining debt apportioned to the GF (£202M).
- 3.3 The debt split also significantly altered the risk profile for both the GF and the HRA. Only long-term debt was apportioned to the HRA, whilst temporary and 'internal' borrowing remained with the GF. This increases the interest rate and refinancing risk inherent within the GF loan pool and this is addressed directly in the relevant borrowing strategy.
- 3.4 The splitting of the debt between the HRA and GF in theory allows decisions on the structure and timing of borrowing to be made independently for the respective pools. Whilst the key issue facing the GF is one of short-term affordability, the HRA has to consider treasury management as a key risk against the viability of the 30 year business plan.
- 3.5 Given the differing requirements and composition of the respective pools, it is acknowledged that there is a need for borrowing strategies for both the HRA and

GF and this is addressed within the TMSS. The key issue for treasury officers is to draw together the contrasting debt pools into a coherent and robust borrowing strategy for Barnsley MBC.

***GF Borrowing Requirement***

- 3.6 The Council's underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision (MRP) for repaying debt from within the revenue budget each year.
- 3.7 Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the revenue account. A separate statement on the Council's policy on MRP is shown at Appendix D.
- 3.8 The GF's estimated CFR is shown below:

	Estimate 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£M	£M	£M	£M
Capital Financing Requirement (CFR)	658	654	645	631
Less : Existing Profile of Borrowing	285	278	273	271
Less: Other Long Term Liabilities	242	235	228	221
Cumulative Maximum External Borrowing Requirement	131	141	144	139
Usable Reserves	100	75	50	50
Cumulative Net Borrowing Requirement	31	66	94	89

- 3.9 The GF has a significant ongoing borrowing requirement as shown in the table above. This is as a result of the strategy of internal borrowing from previous years and a borrowing requirement of £65M in 2012/13 to fund major capital schemes such as the Building Schools for the Future Programme and the markets development.
- 3.10 Given the GF's forecast CFR position as at 31/3/2013, it is anticipated there will be a further external borrowing need in the current financial year as the level of unfunded CFR exceeds the available balances and reserves, illustrated by the positive net cumulative borrowing requirement.
- 3.11 This may vary depending upon changing capital scheme requirements (especially in relation to the markets development). Any changes will be reported to Cabinet.

#### 4 The Council's borrowing strategy (GF)

- 4.1 Given the significant cuts to public expenditure and in particular to local government funding, the GF's borrowing strategy seeks to address the key issue of affordability without compromising the longer-term stability of the portfolio.
- 4.2 As stated at 3.3, the risk profile of the GF has altered significantly following the apportionment of debt following the implementation of self-financing. The GF loan pool is now subject to a much greater degree of interest rate risk, as shown below.

Borrowing method	Value (£M)	% of portfolio	Interest Rate Risk
PWLB - fixed	163	39	No
Market Fixed	27	7	No
PWLB – variable	35	9	Yes
Temporary Borrowing	60	14	Yes
Internal Borrowing / Borrowing Requirement	131	31	Yes
<b>TOTAL</b>	<b>416</b>	<b>100</b>	

*Note – although market loans are viewed as fixed rate borrowing, there is a potential interest rate risk attached to these instruments should the lender exercise the call option.*

- 4.3 Assuming an estimated borrowing CFR of £416M (CFR less long-term liabilities) at the end of 2012/13, 54% of the GF loan pool is exposed to short-term interest rate movements and in the case of temporary borrowing, refinancing risk.
- 4.4 Whilst retaining this level of exposure has clear benefits in reduced interest costs, the current composition of the portfolio is deemed to be too exposed to interest rate fluctuations. A 1% increase in variable interest rates would increase interest payments by over £2M per annum.
- 4.5 As a consequence, the borrowing strategy for 2013/14 is to minimise interest costs whilst re-balancing the portfolio to gradually reduce the GF interest rate risk exposure. The approach will be to externalise a proportion of the GF's internal borrowing, with a view to achieving a more equal split between fixed and variable rate debt.
- 4.6 To achieve these aims the 2013/14 GF debt strategy has three main themes:
1. A continuation of the process of internal borrowing from 2012/13.
  2. A programme of short-term borrowing from other local authorities.
  3. A phased programme of long-term borrowing aimed at reducing interest rate risk.

The combination of these three approaches should help to keep interest payments at relatively low levels, whilst gradually reducing the GF's exposure to interest rate and refinancing risk.

### ***Internal Borrowing Strategy***

- 4.7 Following on from the previous year, it is anticipated that at 31<sup>st</sup> March 2013, the GF will be in an internally borrowed position. Essentially, this means that the level of actual debt is below the CFR, and therefore the GF has used internal resources (reserves and balances) to fund some of its unfinanced capital expenditure, rather than using external borrowing.
- 4.8 The strategy of internal borrowing has two main benefits:
- The 'cost of carry' associated with long-term fixed rate borrowing compared to investment returns is such that the use of internal resources remains an attractive means of funding capital expenditure, minimising external debt payments.
  - The use of internal resources reduces the funds available for investment thereby reducing credit risk. This is a key consideration given the Council's investment priority of maintaining capital.
- 4.9 Whilst the strategy is to reduce cash balances, the Council will aim to maintain a suitable level of liquid cash so as not to expose the Council to undue liquidity risk. This will allow decisions on further borrowing to be made using a considered approach, with flexibility around the timing of new borrowing.

### ***Temporary Borrowing Strategy***

- 4.10 The GF will continue to access short-term borrowing opportunities from other local authorities. The restricted lending list of most authorities means that they are willing to lend at rates only marginally above that offered by the Debt Management Office for investments, currently 0.25% for periods ranging from overnight up to 6 months.
- 4.11 The use of temporary borrowing injects volatility into the portfolio in terms of interest rate and refinancing risk, but this is offset by reduced interest costs. At a time of increasing budgetary pressures, the use of temporary borrowing is a key consideration when balancing the requirements of risk versus affordability.
- 4.12 Whilst the strategies of internal and short-term borrowing generate immediate savings, this approach is not sustainable in the long-term, especially given the level of interest rate risk within the portfolio.
- 4.13 The benefits of this approach need to be weighed carefully against the potential for incurring additional costs by deferring long-term borrowing until later years when PWLB rates are forecast to increase.
- 4.14 Achieving a suitable balance between minimising interest costs and maintaining the long-term stability and affordability of the portfolio is a key borrowing theme. As such, in addition to the continuation of the internal/temporary borrowing strategy the GF will also look to undertake a phased programme of long-term borrowing.

### ***Phased Programme of Long-Term Borrowing***

- 4.15 The final strand of the 2013/14 borrowing strategy is to undertake a phased programme of long-term borrowing.

- 4.16 In order to minimise the ‘cost of carry’ the aim is to undertake a phased programme of borrowing, as opposed to borrowing a significant amount of funds in one transaction. This will reduce unnecessary interest costs, and significantly, the credit risk associated with any temporary investment.
- 4.17 The preferred method of borrowing will be through the PWLB. As referred to in paragraph 2, PWLB rates are at very low levels and in August 2012, HM Treasury announced details of a ‘Certainty Rate’ which will enable authorities to access cheaper PWLB funding, with a 20 basis point reduction on the standard PWLB rate. The Council completed the required pro-forma and has since been confirmed as an ‘eligible authority’.
- 4.18 As a result of the implementation of the ‘Certainty Rate’ on 1<sup>st</sup> November 2012, alternative funding options such as market bonds no longer represent a viable alternative. The only concern with regard to borrowing is that the Council is heavily reliant on the PWLB as the primary source of long-term funding. This represents a risk, and whilst there are no indications of a change to the lending arrangements of the PWLB, officers will continue to monitor developments in the local authority bond market.

#### ***Existing Portfolio***

- 4.19 The GF’s share of existing PWLB variable rate loans (£35M) continues to represent excellent value. Given the benign interest rate environment the interest rate risk associated with this level of debt is considered to be relatively low.
- 4.20 The Council has £63M of LOBOs<sup>1</sup> loans (GF share of £27M) all of which will be in their call period in 2013/14. In the event that the lender exercises the option to change the interest rate of the loan, the Council will consider the terms being provided against the cost repayment of the loan without penalty. Given the reduced level of cash resources due to the strategy of internal borrowing, repayment of any LOBOs would require the Council to replace the borrowing from other sources.
- 4.21 The low interest rate environment and changes to the regulations regarding the premature repayment of PWLB loans has restricted the opportunity for any debt rescheduling. A key principle of the self-financing debt split was that it should be of no detriment to the GF and this will be the primary consideration when assessing the rescheduling of loans split between the GF and HRA.

#### ***Borrowing in advance of need***

- 4.22 Given the GF’s internal borrowing position, it is unlikely there will be any borrowing in advance of need. Any borrowing undertaken in 2013/14 will initially externalise the internal borrowing position.
- 4.23 The GF will only borrow in advance of need where there is a clear business case for doing so and only to fund the current capital programme or to replace maturing loans.

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<sup>1</sup> LOBOs give the lender the opportunity to raise the rate of interest on the loans at specific periods in the year (lender’s option). The borrower then has the option to accept the rate change or repay the loan (borrower’s option). The Council’s LOBOs are currently running at 4.75% and have call periods in February and August.

### *Leasing*

- 4.24 Leasing remains a value for money option for financing suitable assets with a defined residual value, such as vehicles. Despite the financial crisis causing some banks to withdraw from the market, the remaining funders are willing to take significant risks on the future residual value of assets, making leasing a cheaper option for financing than funding acquisitions in-house. There is also a benefit to transferring the risk associated with the residual value away from the Council.
- 4.25 The purchase of vehicles with a value of just less than £2M was approved as part of the Vehicle Replacement Programme for 2013/14. Once these assets have been acquired they will be subject to a tender process and the most suitable method of financing will be selected on a case by case basis, taking into account both the financial benefits and the operational requirements of Fleet Services.

## **5 HRA Borrowing Requirement and Strategy**

- 5.1 In addition to the £269M apportionment of existing debt, the HRA pool also includes the £22M which the Council borrowed from the PWLB to fund the payment to Government to 'buy out' of the housing subsidy system. The Council benefited from reduced rates that were applied to the self-financing transaction and secured a 50 year maturity loan at a rate of 3.48%.
- 5.2 At the commencement of Self financing the HRA therefore had a Capital Financing Requirement (underlying need to borrow for capital purposes) of £291M. The projected HRA CFR at the end of 2012/13 is £289M. The reduction is due to applied capital receipts from housing properties sold under the Right to Buy Scheme. Where sales under the Right to Buy exceed those assumed in the Self Financing Settlement the Council is allowed to retain an amount to cover the housing debt which would have been supported from the rental income on the additional properties sold. It is considered prudent to apply this funding to reduce the CFR.
- 5.3 The HRA 30 Year Business Plan demonstrates that the HRA CFR can be reduced to nil by Year 25. Yet, there is no requirement to repay the debt. Moving forward the asset base of the dwellings could give security for continued borrowing which would potentially allow additional investment in the stock over and above current plans. However, in the early years of the plan there is limited headroom for additional investment. Further there is significant uncertainty currently around the impact of Welfare Reform on HRA income.
- 5.4 There is no requirement to charge MRP as with the GF CFR.

5.5 The HRA's estimated CFR is shown below:

	Estimate 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£M	£M	£M	£M
Capital Financing Requirement (CFR)	289	288	288	285
Less : Existing Profile of Borrowing	289	282	278	277
Cumulative Maximum External Borrowing Requirement	0	6	10	8
Usable Reserves	25	10	10	10
Cumulative Net Borrowing Requirement	(25)	(4)	0	(2)

5.6 The HRA has a limited borrowing requirement during the period to the end 2015/16. The gross borrowing requirement is off-set by the HRA useable reserves in all years.

### **Borrowing Strategy**

5.7 The key aim of the HRA borrowing strategy is to manage the affordability of debt repayments within the 30 year business plan. Debt costs account for approximately 20% of expenditure on the business plan and therefore represent an area of key risk.

5.8 As stated, there is a limited borrowing requirement in 2013/14 and this is more than offset by the level of useable reserves. Therefore, the initial strategy will be for the HRA to internally borrow, complementing the borrowing strategy of the GF. Again this will avoid any 'cost of carry' associated with long-term borrowing and reduce any investment risk.

5.9 Analysis of the predicted portfolio as at 31<sup>st</sup> March 2013 shows the HRA pool is well-protected against any unfavourable movements in interest rates. The table below shows only 12% of borrowing is at variable rates.

Borrowing method	Value (£M)	% of portfolio	Interest Rate Risk
PWLB – fixed	207	72	No
Market Fixed	36	16	No
PWLB – variable	46	12	Yes
Internal Borrowing / Borrowing Requirement	0	0	Yes
<b>TOTAL</b>	<b>289</b>	<b>100</b>	

*Note – although market loans are viewed as fixed rate borrowing, there is a potential interest rate risk attached to these instruments should the lender exercise the call option.*



- 5.10 Whilst the initial strategy is to internally borrow, it may be that at some stage the decision is taken to externalise borrowing. This decision will take account of the interest rate outlook, and be taken in conjunction with the Director of Finance for Berneslai Homes.

***Existing Portfolio***

- 5.11 The HRA's share of existing PWLB variable rate loans (£46M) continues to represent excellent value. Given the benign interest rate environment the interest rate risk associated with this level of debt is considered to be relatively low. Low interest rates also mean the Council's £63M of LOBOs loans (HRA share of £36M) are unlikely to be called in 2013/14.

***Borrowing in advance of need***

- 5.12 Given the HRA's limited borrowing requirement, it is unlikely there will be any borrowing in advance of need. HRA borrowing is limited by the debt cap set by the CLG at £301M, leaving headroom of approximately £13M in 2013/14.

***Charging of Debt Interest Costs***

- 5.13 New long-term borrowing, post 1<sup>st</sup> April 2012 is allocated directly to the GF or HRA pool. Interest payable and other charges (e.g. premiums on early redemption) will be allocated to the respective revenue account.
- 5.14 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative.
- 5.15 This balance will be measured each month and interest transferred between the General Fund and HRA at the monthly average rate earned by the Council on its portfolios of treasury investments and short-term borrowing.

## **6. Annual Investment Strategy**

- 6.1 The Council is required to set an Annual Investment Strategy (AIS) as prescribed in guidance from the CLG on Local Government Investments.
- 6.2 The internal borrowing strategy of 2012/13 continued to keep Council investments at a relatively low level throughout the year. The outlook for 2013/14 remains one of market stress and the Council will continue to employ a strategy of funding capital commitments through the use of internal cash-backed resources or at low rates from other local authorities through temporary borrowing. As a result of current market conditions, opportunities for investment are limited and returns are expected to remain subdued when compared to those seen before the financial crisis of 2008.
- 6.3 The Executive Director of Finance and Property Services, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Treasury Management Panel.
- 6.4 Although the UK is technically out of recession, substantial risks to the outlook for growth remain. Strains in the Euro area pose the greatest risk to a sustained recovery both in the UK and throughout Europe. With this in mind, investors in public money are again forced to appraise the question of risk versus yield. Low investment risk is a key treasury objective, and to comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:
- **Security of the invested capital;**
  - **Liquidity of the invested capital;**
  - **Optimum yield which is commensurate with security and liquidity.**

### ***Security (Credit and Counterparty Risk)***

- 6.5 The Council will continue to maintain a lending list based on its selection criteria and will monitor the credit standing of the institutions on a continuous basis. The list of current eligible counterparties is updated on a weekly basis and circulated to staff involved in the treasury operation. Any negative credit developments that affect the counterparty list are communicated immediately.
- 6.6 Counterparties will be individually selected for investment and as such there is no definitive counterparty list within this Annual Investment Strategy. It remains the Council's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and discretionary. An institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.
- 6.7 In line with CIPFA guidance, the Council selects countries and the institutions within them for the counterparty list after analysis of:
- Credit Ratings (minimum long-term A-for UK institutions and AA+ for non-UK sovereign)
  - Credit Default Swaps (where quoted)

- GDP; Net Debt as a Percentage of GDP
  - Statements of potential Government support
  - Share Prices
  - Macro-economic indicators
  - Corporate developments, news and articles, market sentiment.
- 6.8 The contract for the provision of the Council's banking services was due for renewal in May 2012. After a lengthy and comprehensive tender exercise, Barclays Bank was chosen to be the new provider of the Council's banking facilities.
- 6.9 The change over from the Co-Operative bank to Barclays has brought with it the opportunity for new investment products, including a Flexible Interest Bearing Current Account (FIBCA). The account is used by treasury staff to effectively manage daily cash flows and as well as giving the benefit of regular interest paid quarterly, the FIBCA also provides an additional annual interest payment. Barclays currently meets the Council's minimum credit criteria. Even if the bank's credit rating falls below the Council's minimum criteria, it will continue to use the bank for short term liquidity requirements and business continuity arrangements.
- 6.10 Following the move to Barclays Bank, changes to the account structure has resulted in segregating the Berneslai Homes Ltd bank account. The funds of Berneslai Homes are now ring fenced with a clear separation from Council funds. The responsibility for the management of Berneslai Homes cash balances has been devolved to officers of the Council and the account is run in accordance with Treasury Management best practice and the effective management of risk. Further details can be found in the Berneslai Homes Investment Policy Statement, Appendix F.
- 6.11 Further information on eligible instruments for use by the Council is contained in Appendix E. This Appendix makes the distinction between Specified and Non Specified Investments as required by CLG guidance. Also contained is further detail on respective limits and maturity periods for different types of investment, with a view to protecting the Council against various treasury management risks.
- 6.12 The Council has opened a custodian account with King and Shaxson Ltd, which allows access to alternative investment instruments requiring safe custody such as T-Bills and Certificates of Deposit (CDs). T-Bills are short term Government debt instruments issued by the DMO with a AAA rating and are typically available for 1, 3 or 6 month periods. In a period of significant stress in the markets, T-Bills represent the Council's default position.
- 6.13 CD's are tradable instruments which allow the Council to access some of the larger high quality world banks who are not active in the traditional term deposit market. CD's are similar to fixed term deposits, but they can be traded on the secondary market, although the Council has no plans to sell any CD's purchased prior to maturity.
- 6.14 Money Market Funds (MMFs) are pooled investment vehicles which enable the Council to diversify investment risk, and by offering immediate access to funds, maintain a high degree of liquidity. The Council currently operates five MMF's, and a further two on behalf of Berneslai Homes. MMF's will continue to be

utilised throughout 2013/14, but good treasury management practice prevails and whilst they provide good diversification the Council will also seek to mitigate operational risk by spreading investments between the funds.

- 6.15 In order to further diversify investment risk and enhance yield, the Council is looking to open a Cash Plus or Short Bond Fund. Unlike Money Market Funds which are highly liquid, these funds are more appropriate for an investment time horizon of six months or more.
- 6.16 These funds operate on a variable net asset value (VNAV) basis and invest in a diverse range of securities and instruments that carry a minimum credit rating of A1. This provides investors with a return in excess of the money markets with minimal risk.
- 6.17 Officers are to meet with various funds to discuss account opening in more detail with a view to start investing in early 2013/14. Funds will be selected which best match the Council's risk appetite.

#### ***Liquidity (Liquidity Risk)***

- 6.18 In line with the CLG investment advice on the liquidity of investments, the Council will aim to keep a proportion of the investment portfolio totally liquid (i.e Money Market Funds (MMFs) and overnight deposits).
- 6.19 In a period of prolonged low interest rates, accepted practice would be to lengthen the investment period to lock in to higher rates. However, the uncertainty and volatility in the financial markets has heightened credit risk. As a consequence the Council will keep the investment maturity relatively short, and this is reflected in the maturity periods specified in Prudential Indicator 10 in Appendix C.

#### ***Yield***

- 6.20 The Council will seek to maximise returns from its investments but this will be secondary to security and liquidity priorities. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated that the Bank of England will stick to its lower-for-even-longer stance on the Bank Rate, possibly until 2016.
- 6.21 During the year, the Bank of England introduced the Funding for Lending Scheme (FLS) in an attempt to stimulate the economy by making cheaper loans available to firms and individuals. UK banks and building societies that have signed up to the scheme can borrow the equivalent of up to 5% of their loan book. Allowing institutions access to additional funding subsequently affects the investment rates they are prepared to offer. Short-term money market rates are likely to remain at very low levels for an extended period which will significantly reduce investment income.
- 6.22 Although the Council currently has a good spread of investment instruments, officers will continue to evaluate alternative investment options that meet the principles of security, liquidity and yield. Instruments such as Corporate Bonds and Pooled Property funds are being considered and will be taken to Treasury Management Panel for discussion and advice sought from Arlingclose prior to making any investment decisions.

### ***Diversification***

- 6.23 In addition to the core investment principles of security, liquidity and yield the Council will also seek to diversify investments to avoid concentration in specific banks, types of instrument, sovereign state etc.
- 6.24 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investments levels are set to ensure prudent diversification is achieved and these can be found in Appendix E.

### ***Performance Measurement***

- 6.25 The CIPFA TM Code requires the Council to set performance indicators to measure the performance of the treasury function over the year. The performance indicator used is:
- In-house Investments – performance is measured against the 7 Day LIBID.
- 6.26 The Council also receives benchmarking information from Arlingclose which compares performance against that of their other clients. This information has the added advantages of including risk weightings and also allows comparison with other counterparties whom are receiving the same investment advice. The Council's performance will be reported in the respective quarterly reports.

### ***Use of Advisers***

- 6.27 Following a tender exercise, in June 2012 the Council's current treasury management advisors, Arlingclose, were reappointed on a three year contract.
- 6.28 The CLG's guidance on Local Government Investments recommends that the AIS should comment on the use of treasury management advisers, and in particular how the Council uses external advisers and how quality of service is measured.
- 6.29 The services Arlingclose offer are clearly stated in the 'Schedule of Services' contained within the contract documentation. Whilst it is difficult to measure the quality of service in value added terms, Arlingclose continue to provide a professional and responsive service and have assisted the Council in achieving their Treasury Management objectives in what has been an extremely challenging environment.
- 6.30 With regard to the Annual Investment Strategy, the Council's investment priorities remain security, liquidity and yield and it is the Council's relative success in meeting these objectives against which Arlingclose will be primarily assessed.

### ***Staff Training***

- 6.31 The CIPFA Code requires the AIS to outline the Council's approach to training of staff involved in the management of investments. The Council is committed to

ensuring staff involved in Treasury Management are fully trained and possess the necessary skills to effectively discharge their role.

- 6.32 General training requirements are reported through the Council's Personal Development Review (PDR) process.
- 6.33 Two of the three staff members involved in treasury operations have completed the CIPFA-ACT International Treasury Management qualification. Ongoing training is accessed through Arlingclose workshops and attendance at CIPFA Treasury Management Network seminars, of which the Council is a member.
- 6.34 All training activities are recorded in accordance with Treasury Management Practice 10 – Training and Qualifications.

## **7. Reporting on Treasury Management and Leasing activity**

- 7.1 As outlined at paragraph 1.5, the Acting Executive Director of Finance and Property Services will report to the Treasury Management Panel on a monthly basis. It will report to Cabinet on treasury management and leasing activity / performance on a quarterly basis and produce an outturn report to Council on its treasury activity no later than 30<sup>th</sup> September after the financial year end.
- 7.2 The Treasury Management Panel will report to both Cabinet and Council on an exceptional basis as required. The Treasury Management Panel will also liaise with the nominated Audit Committee representatives on key issues and reports will be submitted to full Audit Committee on a minimum six monthly basis. The TM Strategy and Policy Statements and Prudential Indicators are subject to Scrutiny.

## **Summary**

The effective identification and management of risk remains at the forefront of the Council's objectives. This is especially so given the move to housing self-financing, and the need to manage the differing requirements of the respective debt pools. The Council is determined to take a proactive approach to treasury management in what are challenging times for local government.

## **LIST OF APPENDICES**

### **Appendices**

- A. Risk Schedule
- B. Policy on use of Financial Derivatives
- C. Prudential Indicators
- D. MRP Statement Position
- E. The Council's Specified & Non Specified Investments
- F. Berneslai Homes Investment Policy

### Council's approach to risk management

The following schedule contains information from the Treasury Management Practice documents and the Council's risk management software, and provides a summary as to how the Council manages the various treasury management risks.

1. **Risk** : Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment.  
**Mitigation** : Credit & Counterparty risk is addressed through the use of the Annual Investment Strategy (AIS) as detailed in Section 5. The ongoing financial crisis in Europe and the potential impact on the banking sector means that credit risk remains a key issue.  
**Probability** : Medium  
**Impact** : Very High
  
2. **Risk** : Liquidity risk is the risk that cash will not be available when it is needed.  
**Mitigation** : The Council has access to short-term funding through the money markets and borrowing is also readily available from the PWLB.  
The Council also keeps a proportion investments totally liquid instruments i.e with immediate access as referred to in the AIS.  
**Probability** : Low  
**Impact** : Medium
  
3. **Risk** : Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances.  
**Mitigation** : Both the HRA and GF debt pools are subject to a degree of interest rate risk. Officers will continue to monitor the risk, however, the benign interest rate environment with no immediate sign of any rate rise means that the current level is considered acceptable.  
**Probability** : Medium  
**Impact** : Very High
  
4. **Risk** : Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances.  
**Mitigation** : None – the Council undertakes minimal foreign currency transactions, so the risk is negligible.  
**Probability** : Very Low  
**Impact** : Very Low
  
5. **Risk** : Refinancing risk is the risk that maturing borrowings cannot be refinanced on terms that reflect the provisions made by the Council.  
**Mitigation** : The PIs place limits on the maturity structure of borrowing to limit the refinancing risk. The HRA and GF pools have only a minimal amount of long-term debt maturing in 2013/14, consisting of part repayments of annuity and Equal Instalment of Principal PWLB loans. The GF has a significant amount of temporary borrowing which will need to be refinanced and this is addressed in the borrowing strategy.  
**Probability** : Medium  
**Impact** : High



6. **Risk :** Legal and regulatory risk is where the Council fails to act in accordance with its legal powers or regulatory requirements, and suffers losses accordingly.  
**Mitigation :** The Council receives professional advice from Treasury Management advisors and officers receive regular training updates.  
**Probability :** Low  
**Impact :** Low
7. **Risk :** Fraud error and corruption and contingency management risk is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings.  
**Mitigation :** Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. The recommendations of these reports are actioned in accordance with the agreed timetable.  
**Probability :** Low  
**Impact :** Medium
8. **Risk :** Market risk is the risk that through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.  
**Mitigation :** As stated in the investment strategy, the Council has a custodian account allowing access to tradable instruments with a fluctuating capital value. However, if these instruments are held to maturity, as is the intention, the capital value will be repaid in full.  
**Probability :** Low  
**Impact :** Medium

**Policy on use of Financial Derivatives**

1. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of financial derivatives. The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
2. The Council will only use derivatives where they can be clearly demonstrated to reduce the overall level of financial risk
3. Derivatives may be arranged with any organisation that meets the Council's approved investment criteria.
4. The Council will only use derivatives after seeking a legal opinion and ensuring that officers have the appropriate training to effectively manage their use.

### 1. Capital Expenditure

	Estimate 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£M	£M	£M	£M
General Fund	184	39	10	5
HRA	23	37	26	25
<b>TOTAL</b>	<b>207</b>	<b>78</b>	<b>36</b>	<b>30</b>

*Note : the figure for capital expenditure in 2012/13 includes £89M transferred to the balance sheet as a result of the Building Schools for the Future PFI programme.*

### 2. Ratio of Financing Costs to Net Revenue Stream

	Approved 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	%	%	%	%
General Fund	14	19	19	18
HRA	72	47	44	43

### 3. Capital Financing Requirement

	Estimate 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£M	£M	£M	£M
General Fund	658	654	645	631
Housing Revenue Account	289	288	288	285
<b>TOTAL</b>	<b>947</b>	<b>942</b>	<b>933</b>	<b>916</b>

#### 4. Estimates of the Incremental Impact of Capital Decisions on Council Tax

	Approved 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£	£	£	£
Increase in Band D Council Tax	7.03	8.56	8.57	8.57
Increase in Average Weekly Housing Rents	1.02	0.95	2.62	4.08

*Note :The 2013/14 figure is higher than in previous years due to an adjustment of the taxbase following changes in the calculation methodology.*

#### 5. Authorised Limit for External Debt

	Approved 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£M	£M	£M	£M
Borrowing	715	730	730	730
Other Long-term Liabilities	150	235	235	235
<b>TOTAL LIMIT</b>	<b>865</b>	<b>965</b>	<b>965</b>	<b>965</b>

#### 6. Operational Boundary for External Debt

	Approved 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£M	£M	£M	£M
Borrowing	700	715	715	715
Other Long-term Liabilities	150	235	235	235
<b>TOTAL LIMIT</b>	<b>850</b>	<b>950</b>	<b>950</b>	<b>950</b>

#### 7. Adoption of CIPFA code of Practice in TM

The Council adopted the CIPFA Code of Practice on Treasury Management on 13 <sup>th</sup> February 2002.
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**8a. Interest Rate Exposure - GF**

	Approved 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	%	%	%	%
Upper Limit for Fixed Interest Rate Exposure	95	95	95	95
Upper Limit for Variable Rate Exposure	30	30	30	30

**8b. Interest Rate Exposure – HRA**

	Approved 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	%	%	%	%
Upper Limit for Fixed Interest Rate Exposure	95	95	95	95
Upper Limit for Variable Rate Exposure	25	25	25	25

**9. Maturity Structure of Borrowing - GF**

	2012/13 Approved		2013/14	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Less than 12 months	0%	25%	0%	25%
12 months & within 24 months	0%	25%	0%	25%
24 months & within 5 years	0%	25%	0%	25%
5 years & within 10 years	0%	25%	0%	25%
10 years & within 20 years	0%	75%	0%	75%
20 years and within 30 years	0%	75%	0%	75%
30 years and within 40 years	0%	75%	0%	75%
40 years and within 50 years	0%	75%	0%	75%
50 years and above	0%	75%	0%	75%

## 9b. Maturity Structure of Borrowing - HRA

	2012/13 Approved		2013/14	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Less than 12 months	0%	25%	0%	25%
12 months & within 24 months	0%	25%	0%	25%
24 months & within 5 years	0%	25%	0%	25%
5 years & within 10 years	0%	25%	0%	25%
10 years & within 20 years	0%	75%	0%	75%
20 years and within 30 years	0%	75%	0%	75%
30 years and within 40 years	0%	75%	0%	75%
40 years and within 50 years	0%	75%	0%	75%
50 years and above	0%	75%	0%	75%

## 10. Maximum Principal Sums Invested

	Approved 2012/13	Year 1 2013/14 Estimate	Year 2 2014/15 Estimate	Year 3 2015/16 Estimate
	£M	£M	£M	£M
Principal Sums Invested > 364	20	20	20	20
Principal Sums Invested > 2yrs	15	15	15	15
Principal Sums Invested > 3yrs	10	10	10	10

## 11. Gross and Debt and CFR

Gross & Net Debt	2012/13 Estimate
	£M
Outstanding Borrowing	574
Other Long-term Liabilities	242
Gross Debt	816
Max CFR	950
Headroom	134

**2014/15 MRP STATEMENT**

The Council is required to make a prudent provision for debt redemption known as the Minimum Revenue Provision (MRP). Guidance on MRP has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

*NB This does not preclude other prudent methods.*

MRP in 2013/14: Options 1 and 2 may be used only for General Fund supported expenditure. Methods of making prudent provision for General Fund self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses). **There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.**

The MRP Statement is required to be submitted to Council before the start of the 2013/14 financial year for approval. The Council is recommended to approve the following statement:

- **The Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.**
- **Within Option 3 revenue provision is calculated in one of two ways – equal instalments or annuity method. Each capital project will be individually assessed to determine the most appropriate method of calculation.**
- **MRP will normally commence in the financial year following the one in which expenditure is incurred, however MRP Guidance permits authorities to defer MRP until the financial year following the one in which the asset becomes operational. The Council has chosen to employ this “MRP holiday” on the significant qualifying projects such as the Building Schools for the Future programme.**

MRP in respect of Private Finance Initiative (PFI) and leases brought on balance sheet under the International Financial Reporting Standard Code of Practice will match the annual principal repayment for the associated deferred liability. This approach will produce an MRP charge comparable to that under option 3 in that it will run over the life of the lease/PFI scheme.



## Specified and Non Specified Investments

### *Specified Investments identified for use by the Council*

#### *Eligible Instruments*

Specified Investments will be those that meet the criteria in the CLG Guidance as follows:

- Sterling denominated
- Maximum maturity of 1 year (from date of commitment rather than funds paid over)
- “High” credit criteria as determined by the Council (see below) or is made with the UK government or is made with a local authority in England, Wales, Scotland and Northern Ireland.
- Making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- AAA-rated Money Market Funds
- Treasury Bills (T-Bills)
- Certificates of deposit with banks and building societies
- Gilts : (bonds issued by the UK government)
- Bonds issued by multilateral development banks
- Corporate Bonds
- Other Money Market and Collective Investment Schemes
- Investments with Registered Providers

#### *Selection Criteria*

For the purposes of the strategy the Council determines “High” credit criteria as:

- A minimum long term rating of A- or equivalent for UK institutions and non-UK institutions.
- A minimum non-UK sovereign rating of AA+ or equivalent.

It should be emphasised that institutions with a rating within the single A band are still considered to be a ‘high credit quality’ (Fitch).

## Limits

New specified investments will be made within the following limits:

Instrument	Country	Counterparty	Maximum Limit of Investments £m
Term Deposits	UK	Debt Management Office	No limit
Term Deposits / Call Accounts/ LA Bills	UK	Other UK Local Authorities	No limit
Term Deposits / Call Accounts/CDs	UK	UK Banks that meet specified criteria.  For banking groups (e.g Bank of Scotland / Lloyds ) there is a group limit of £25M  Deposits with Authority bank - Barclays – FIBCA Flexible Interest Bearing Current Account	£15M  £25M Group limit  Within £15M bank limit
Term Deposits / Call Accounts/CDs	Non UK	Foreign Banks that meet the specified criteria.  Exposure limit of £30M per country.	£10M  £30M country limit
Gilts & T- Bills	UK	DMO	No limit
Bonds issued by Multilateral Development Banks	Various	E.g European Investment Bank	£20M
AAA rated Money Market Funds	UK / Ireland / Luxembourg	Various	£10M per fund
Collective Investment Schemes	UK	Various	£10M per fund
Corporate Bonds	Various	Various – Issuer and issue must have a minimum credit rating of A- or higher	£10M
Deposits with Registered Providers	UK	Various	£10M

### *Non-Specified Investments determined for use by the Council*

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	<b>Maximum value</b>	<b>Maximum maturity</b>
<ul style="list-style-type: none"><li>• Investments with banks and building societies that do not meet the specified investment criteria</li></ul>	£10M	3 yrs
<b>Gilts and bonds:</b> <ul style="list-style-type: none"><li>• Gilts</li><li>• Bonds issued by multilateral development banks</li></ul>	£20M per instrument class	10 years
<ul style="list-style-type: none"><li>• Bonds issued by financial institutions guaranteed by the UK government</li><li>• Sterling denominated bonds by non-UK sovereign governments</li></ul>	£20M per instrument class	10 years
<ul style="list-style-type: none"><li>• Corporate Bonds</li></ul>	£10M	5 years
<ul style="list-style-type: none"><li>• Deposits with Registered Providers</li></ul>	£10M	5 years

**The Council will have a maximum of 25% of its investment portfolio in non-specified investments.**

All non-specified investments must be approved in accordance with the authorisation procedures as detailed in Treasury Management Practice Document 5: Organisation, Clarity and segregation of Responsibilities and Dealing Arrangements.

This involves prior authorisation and approval of either the Strategic Financing Manager or Head of Technical Services.

## **Berneslai Homes Investment Policy Statement 2013/2014**

### **1. Introduction & Background**

- 1.1 After a re-organisation of the banking function in May 2012 following the move to Barclays Bank, changes to the account structure meant the Berneslai Homes bank account became segregated from the Council's suite of accounts.
- 1.2 As a result, it was decided the funds of Berneslai Homes would remain ring-fenced with a clear separation from Council funds.
- 1.3 The Berneslai Homes current account is running at a surplus position, and excluding cash flow variations, is expected to continue to do so in the immediate future.
- 1.4 A minimum balance will be maintained in the current account. In accordance with Treasury Management best practice and the effective management of risk, surplus funds in excess of the minimum balance will be invested in accordance with the principles outlined below.
- 1.5 The responsibility for the management of Berneslai Homes cash balances will be devolved to the officers of the Council.
- 1.6 Operational procedures for the management and investment of Council funds are contained within the Treasury Management Practices (TMPs) document, which is prepared in accordance with the CIPFA Code of Practice for Treasury Management. The same procedures will be applied to the management of Berneslai Homes funds.

### **2. Investment Principles**

- 2.1 Surplus funds will be invested for Berneslai Homes in accordance the Council's investment priorities which are:
  - **Security of the invested capital;**
  - **Liquidity of the invested capital;**
  - **Optimum yield which is commensurate with security and liquidity.**

#### ***Security (Credit and Counterparty Risk)***

- 2.2 The Council's, and therefore Berneslai Homes, overriding investment principle is to maintain the security of capital.
- 2.3 Officers will assess counterparties for investment on the same basis upon which the Council's own investment list is derived. The Council selects institutions after analysis of:
  - Credit Ratings (minimum long-term A-for UK institutions and AA+ for non-UK sovereign)
  - Credit Default Swaps (where quoted)
  - GDP; Net Debt as a Percentage of GDP

- Statements of potential Government support
- Share Prices
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment

#### *Liquidity*

- 2.4 In line with the principal of liquidity, officers will maintain a minimum balance in the Berneslai Homes current account to minimise any liquidity risk. Initially, it is anticipated this will be in the region of £2M although this will fluctuate according to the company's cash flow.

#### *Yield*

- 2.5 The UK Bank Rate has been maintained at 0.5% since March 2009, and is expected to remain low throughout 2013/14. Short-term money market rates are likely to remain at very low levels for an extended period which will limit investment income.

#### *Diversification*

- 2.6 In addition to the core investment principles of security, liquidity and yield officers will also seek to diversify investments to avoid concentration in one institution.

### **3. Performance Measurement & Reporting**

- 3.1 Berneslai Homes investment performance will be measured against the 7 Day LIBID rate.
- 3.2 A quarterly summary of investment balances and performance will be provided to the Director of Finance for Berneslai Homes.

