Decision maker:	Cabinet City Council
Subject:	Treasury Management Policy for 2016/17
Date of decision:	3 March 2016 (Cabinet) 11 March 2016 (Governance and Audit and Standards Committee – information only) 22 March 2016 (City Council)
Report by:	Chris Ward, Director of Finance and Information Services (Section 151 Officer)
Wards affected:	All
Key decision:	Yes
Full Council Meeting:	Yes

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1. Summary

This report sets out the Council's policies on borrowing, providing for the repayment of debt and investing for 2016/17.

The Council's treasury management operation has a cash limit of £23m and therefore can have a significant effect on the revenue available to fund the Council's front line services. In addition the Council has investments with 57 institutions amounting to £385m. If an institution defaulted on one of the Council's investments the loss would have to be borne by the General Fund.

2. Purpose of report

The purpose of this report is to obtain the Council's approval for 2016/17 to the Treasury Management Policy Statement (attached) which includes:

- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

3. Recommendations

3.1a **the Head of Financial Services and Section 151 Officer and officers nominated by him be given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy;**

3.1b **the Council adopts a risk appetite statement that permits investments to be made in instruments that do not guarantee that the capital sum will not be diminished through movements in prices;**

3.1c **the Director of Finance and Information Services (Section 151 Officer) is given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time**

3.1d **the upper limits for fixed interest exposures are set as follows:**

2015/16	**£195m**
2016/17	**£358m**
2017/18	**£446m**
2018/19	**£482m**

3.1e **the upper limits for variable interest exposure are set as follows:**

2015/16	**(£265m) – Investments up to £265m**
2016/17	**(£444m) – Investments up to £444m**
2017/18	**(£526m) – Investments up to £526m**
2018/19	**(£555m) – Investments up to £555m**

3.1f **the following limits be placed on principal sums invested for periods longer than 364 days:**

31/3/2016	**£286m**
31/3/2017	**£196m**
31/3/2018	**£123m**
31/3/2019	**£90m**

3.1g the City Council set upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 Months	**10%**	**0%**
12 months & within 24 months	**10%**	**0%**
24 months & within 5 years	**10%**	**0%**
5 years & within 10 years	**20%**	**0%**
10 years & within 20 years	**30%**	**0%**
20 years & within 30 years	**30%**	**0%**
30 years & within 40 years	**30%**	**0%**
40 years & within 50 years	**40%**	**0%**

3.1h authority to reschedule debt during the year is delegated to the Director of Finance and Information Services (Section 151 Officer) subject to conditions being beneficial to the City Council;

3.1i no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council;

3.1j the principals upon which the apportionment of borrowing costs to the Housing Revenue Account (HRA) should be based are as follows:

- **The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;**

- **The loans portfolio is managed in the best interests of the whole authority;**

- **The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA;**

3.1k **the Council adopts a Minimum Revenue Provision (MRP) policy based on a straight 2% for pre 1 April 2008 debt and government supported debt excluding finance leases and service concessions (including Private Finance Initiative schemes);**

3.1l **the MRP on finance leases and service concessions including Private Finance Initiative (PFI) arrangements equals the charge that goes to write down the balance sheet liability;**

3.1m **the asset life (annuity) method of calculating MRP is applied to post 1 April 2008 self-financed borrowing but excluding:**

- **Finance leases**
- **Service concessions (including Private Finance Initiative schemes)**
- **Borrowing to fund long term debtors (including finance leases)**
- **Borrowing to fund investment properties**
- **Borrowing to fund equity shares purchased in pursuit of policy objectives;**

3.1n **the principal element of the income receivable from long term debtors be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;**

3.1o **the principal element of the rent receivable from finance leases be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;**

3.1p **that debt resulting from self-financed borrowing to fund investment properties be provided for by setting aside the capital receipt on disposal**

3.1q **the Council sets aside the capital receipt to provide for the repayment of the self-financed borrowing in the event of it selling its shares in the Municipal Bonds Agency or Hampshire Community Bank**

3.1r **the Housing Revenue Account (HRA) provide for the repayment of the Self Financing Payment over 30 years;**

3.1s **that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two credit rating agencies except registered social landlords for which a single credit rating will be required;**

3.1t investments should only be placed with institutions based in either the United Kingdom or sovereign states with an AA+ credit rating;

3.1u the Council's investments are limited to senior debt;

3.1v the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to invest the Councils funds in structured investment products which follow the developed stock markets but do not fully protect the Council's capital invested;

3.1w the bodies meeting the criteria of categories 1 to 8 in paragraph 18.17 are approved as repositories of specified investments of the City Council's surplus funds;

3.1x that credit ratings be reviewed weekly and that any institution whose credit rating falls below the minimum level stated in paragraph 18.17 of the Treasury Management Policy be removed from the list of specified investments;

3.1y that institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category;

3.1z that non-specified investments in aggregate are limited to the following:

	£
Building societies with a BBB credit rating and unrated building societies	81m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	286m
Investments denominated in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**374m**

3.1aa the total amount that can be directly invested with any organisation at any time should be limited as follows (see paragraph 20.1):

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 6 years
Category 2	£30m for up to 6 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 6 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 6 years
Category 7	£13m for up to 6 years
Category 8	£10m for up to 6 years
Category 9	£10m for up to 2 years
Category 10	£6m for up to 2 years
Category 11	£6m for up to 364 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

3.1ab the Director of Finance and Information Services (Section 151 Officer) in consultation with the Leader of the Council is given delegated authority to revise the total amount that can be directly invested with any organisation at any time

3.1ac the following investment limits be applied to sectors:

Money market funds	**£80m**
Building societies	**£107m**
Registered social landlords	**£80m**
Investments tracking the equity markets	**£70m**

3.1ad the following investment limits be applied to regions outside the United Kingdom:

Asia & Australia	**£60m**
Americas	**£60m**
Eurozone	**£30m**
Continental Europe outside the Eurozone	**£30m**

3.2 the Director of Finance and Information Services (Section 151 Officer submits the following:

(i) an annual report on the Treasury Management outturn to the Cabinet by 30 September of the succeeding financial year;

(ii) A Mid-Year Review Report to the Cabinet and Council;

(iii) the Annual Strategy Report to the Cabinet in March 2017;

(iv) quarterly Treasury Management monitoring reports to the Governance and Audit and Standards Committee.

3. Background

The City Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.

In addition the Government has issued statutory guidance that requires the Council to approve an Annual Minimum Revenue Provision for Debt Repayment Statement and an Annual Investment Strategy before the start of the financial year.

The Treasury Management Strategy, the Annual Minimum Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

4. Reasons for recommendations

The recommendations within the attached Treasury Management Policy Statement reflect the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice and have regard to statutory guidance issued by the Government. These are designed to:

- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs
- Provide for the repayment of borrowing
- Ensure that the Council's investments are secure
- Ensure that the Council maintains sufficient liquidity
- Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio

It is recommended that the risk appetite statement in paragraph 4.2 of the Treasury Management Policy be amended so that the Council invests in a range of instruments consistent with a *low risk* of the capital sum being diminished through movements in prices rather than *avoiding the risk* of the capital sum being diminished through movements in prices. This is to enable the Council to invest in low risk structured investment products with returns that follow the developed stock markets but do not fully protect the Council's capital invested **(recommendation 3.1b)**. It is also recommended that the maximum duration of investments with most organisations offering high credit quality be increased from 5 years to 6 years **(recommendation 2.1aa)**. Investing in low risk structured investment products with returns that follow the developed stock markets with a maximum duration of 6 years can reduce the risk of the capital sum being diminished through price movements as there is more time for the product to lock into a stock market gain, although it also allows more time for the credit quality of the institution holding the investment to deteriorate.

There are also a number of recommended changes to the Minimum Revenue Provision (MRP) for debt repayment policy **(recommendations 3.1k, p and q)**. 62% of the Council's borrowings mature in over 30 years' time. All but £11m of the Council's borrowing is Public Works Loans Board (PWLB) debt. The PWLB introduced new lower discount rates to calculate premiums on the early repayment of debt in 2010. The increased premiums resulting from this means that the existing debt is unlikely to be repaid early or rescheduled. These changes to the MRP policy are intended to defer making provision for the repayment of debt to help prevent large cash balances building up prior to being able to actually repay the debt. The need to invest such high cash balances exposes the Council to credit risk in the event that one of the Council's investment counterparties gets into financial difficulties.

5. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

6. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

7. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

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Signed by Director of Finance and Information Services (Section 151 Officer)

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2016/17

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document		Location
1	Information pertaining to the treasury management strategy	Financial Services
2		