

From CABINET MEETING held on 3 March 2016

Council Agenda Item 8 (Cabinet minute 11)

Treasury Management Policy for 2016/17

RECOMMENDED to Council that

- 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;
- 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;
- 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
- 1d** the upper limits for fixed interest exposures are set as follows:
- | | |
|----------------|--------------|
| 2015/16 | £195m |
| 2016/17 | £358m |
| 2017/18 | £446m |
| 2018/19 | £482m |
- 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 |
- 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

- 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% |

- 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;
- 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;
- 1j the principles 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;
- 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);

- 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;**
- 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;**
- 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;**
- 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;**
- 1p that debt resulting from self-financed borrowing to fund investment properties be provided for by setting aside the capital receipt on disposal**
- 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**
- 1r the Housing Revenue Account (HRA) provide for the repayment of the Self Financing Payment over 30 years;**
- 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;**
- 1t investments should only be placed with institutions based in either the United Kingdom or sovereign states with an AA+ credit rating;**
- 1u the Council's investments are limited to senior debt;**

- 1v the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to invest the Council's funds in structured investment products which follow the developed stock markets but do not fully protect the Council's capital invested;**
- 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;**
- 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;**
- 1y that institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category;**
- 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 |

- 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 |

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

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 |

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 |

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.**