

**BUCKINGHAMSHIRE COUNTY COUNCIL**

**TREASURY MANAGEMENT POLICY STATEMENT, TREASURY  
MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT  
STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT  
FOR 2018/19**

**Treasury Management Policy Statement**

- 1 Buckinghamshire County 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.
  - The County 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 focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
  - 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
  - The investment policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and Department for Communities and Local Government (DCLG) guidance requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.
  - The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

# Treasury Management Strategy Statement

## Introduction

- 2 The Treasury Management Strategy details the expected activities of the treasury function in the forthcoming year 2018/19. The publication of the strategy is a statutory requirement.
- 3 The Treasury Management Strategy Statement and Annual Investment Strategy are underpinned by the CIPFA Code of Practice and Treasury Management Practices (TMPs) which provide prescriptive information as to how the treasury management function should be carried out.

## Current Portfolio Position

- 4 The Council's treasury portfolio position as at 31 December is summarised below. Following the Energy from Waste bullet payment of £180m in June 2016 the Council changed from a net positive cash position to a net borrower:

	31 Dec 2015	31 Dec 2016	31 Dec 2017
Borrowing:	£m	£m	£m
PWLB	-92.5	-78.7	-117.2
LOBOs	-82.0	-82.0	-78.0
Temporary Borrowing	<u>0.0</u>	<u>-42.5</u>	<u>-40.0</u>
Gross Borrowing	-172.5	-203.2	-235.2
Treasury Cash:			
Money market funds	59.3	4.1	17.1
Term deposits<1 year	154.5	10.0	0.0
Property fund	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>
Gross Cash	218.8	19.1	22.1
Net Cash / (Borrowing)	<u>46.3</u>	<u>-184.1</u>	<u>-213.1</u>

- 5 The following table summarises interest paid on external debt and interest earned on cash balances:

	2016/17	2017/18	2018/19
	£m	£m	£m
Interest paid on Loans	8.9	8.3	8.5
Interest Income	0.8	0.4	0.4

- 6 The Council's average cash balance is forecast to be approximately £30m, an average rate of return of 1% for the cash portfolio is anticipated. The Council is maintaining minimum cash levels for operational purposes. It is proposed that the 2017/18 strategy with the same cash limits as per the table below is retained during 2018/19:

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	<b>£10m each</b>
UK Central Government	<b>unlimited</b>
Any group of pooled funds under the same management	<b>£25m per manager</b>
AAA sovereign rated foreign countries	<b>£20m per country</b>
AA+ sovereign rated foreign countries	<b>£10m per country</b>
Money Market Funds	<b>£50m in total</b>

### **Prospects for Interest Rates**

- 7 The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

### **Borrowing Strategy**

- 8 The Council's borrowing objectives are:
- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
  - To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
  - To maintain a view on current and possible future interest rate movements and borrow accordingly.
  - To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators.
- 9 The Council may borrow in advance of spending need, where this is expected to provide the best long term value for money. Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy. The Council is intending to arrange a combination of Public Works Loan Board (PWLB) long term loans and short term bank loans to meet its borrowing requirements. The PWLB is a statutory body, part of HM Treasury, its purpose is to lend money to local authorities. The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The Council will be repaying £10m of PWLB borrowing on 14 February 2018, a £11.004m PWLB borrowing will be repaid during 2018/19. Following the repayment of higher interest PWLB loans the average interest rate of the debt portfolio. The Council pre-paid a £4m Lender Option Borrower

Option (LOBO) loan and will consider other prepayment options as they arise, which will reduce the average maturity profile of the debt. LOBOs are long term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised interest rate or repay the loan.

- 10 The Council may borrow short term loans, normally for up to one month, to cover unexpected cash flow shortages.

### **Investment Strategy**

- 11 This Council maintains cash balances that are placed with reference to cash flow requirements. Investment of the Council's cash balances is in accordance with the Annual Investment Strategy.

### **Debt Rescheduling**

- 12 The potential for debt rescheduling is monitored in light of interest rate movements. Any rescheduling will be in accordance with the borrowing strategy. The reasons for rescheduling include:
  - The generation of cash savings at minimum risk.
  - Fulfilment of the borrowing strategy.
  - Enhancement of the maturity profile of the borrowing portfolio.
- 13 All rescheduling will be reported retrospectively as part of the Treasury Management Update Reports to the Regulatory and Audit Committee and County Council.

### **CIPFA Treasury Management Code of Practice**

- 14 CIPFA recommends that all public service organisations adopt the following four clauses.
- 15 This Council will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives, approach to risk management of its treasury management activities, borrowing policies and investment policies.
  - Suitable Treasury Management Practices (TMPs), 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.
- 16 This Council will receive reports on its treasury management policies and activities, including 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 TMPs.

- 17 This Council delegates responsibility for the oversight and scrutiny of its treasury management policies and practices to the Regulatory and Audit Committee, and for the execution and administration of treasury management decisions to the Director of Finance and Assets, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 18 This Council nominates the Regulatory and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **Annual Investment Strategy**

### **Introduction**

- 19 This Council has regard to the DCLG's revised Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.
- 20 The Annual Investment Strategy states which investments, specified and non-specified, the Council may use for the prudent management of its treasury balances during the financial year.
- 21 This strategy sets out this Council's policies for managing its investments and for giving priority to the security of capital and liquidity of those investments.

### **Investment Objectives**

- 22 The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the **security** of capital and **liquidity** of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and DCLG guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of local authority services is an important, but secondary, objective. The effective management and control of risk are prime objectives of the Council's treasury management activities. Investment of the Council's cash balances will be in accordance with the Treasury Management Strategy and Policy. All investments will be in sterling to mitigate the impact of currency risk.
- 23 The Council's investments, agreed lending list and strategy are reviewed on a monthly basis by the Treasury Management Group.
- 24 The Council's treasury management ensures it has sufficient cash to meet its needs, balancing achieving value for money with the security of its investments (achieving a balance between security, liquidity and yield). Performance is monitored against its treasury management

strategy and outcomes matched against benchmarks. The Council meets any tax and prompt payment legislation (Late Payment of Commercial Debts (Interest) Act 1998).

- 25 The DCLG 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.
- 26 Through various mechanisms identified in this strategy, the Council ensures that investment risks are effectively mitigated. The Council will ensure that an appropriate balance is found between maximising investment income to the Council within a prudent, transparent and logical investment strategy. The security of the principal sum shall be the Council's prime risk factor.

### **Approved Counterparties**

- 27 A country is assigned a sovereign rating which signifies a country's ability to provide a secure investment environment which reflects factors such as economic status, political stability and foreign currency reserves. The strongest sovereign rating that can be achieved is "AAA", "AA+" is the next strongest. The Council invests in the UK or specified AAA and AA+ sovereign rated countries, the total maximum that can be invested in an individual AAA sovereign rated country is £20m and the total maximum that can be invested in an individual AA+ sovereign rated country is £10m. Countries that are currently AAA sovereign rated are Australia, Canada, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden and Switzerland. Austria, Finland, United Kingdom and the USA are currently AA+ sovereign rated. Santander UK plc is deemed to be a UK institution, although their parent bank is based in Spain, it has extensive UK operations. Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).
- 28 The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown below

<b>Cash limits (per counterparty)</b>			
<b>Credit Rating</b>	<b>Banks Unsecured</b>	<b>Banks Secured</b>	<b>Government</b>
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£5m 5 years	£10m 20 years	£10m 50 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years
AA	£5m 4 years	£10m 5 years	£10m 15 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months	£5m 5 years
BBB+	£3m 100 days	£3m 6 months	£3m 2 years
BBB	£3m next day only	£3m 100 days	n/a
None	£3m 6 months	n/a	£10m 25 years
Pooled funds	£25m per fund		

These tables must be read in conjunction with the following notes:

- 29 **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.
- 30 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank Lloyds plc.
- 31 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 32 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 33 **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 34 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

### **Credit Watch / Outlook**

- 35 From time to time an institution will be placed on negative watch or negative outlook, indicating that a downgrade is either likely or possible in the future. Watches are considered short term actions, whereas outlooks are considered over a longer time horizon. If an institution is on negative watch so that it is likely to fall below the above criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced.

### **Credit Default Swaps (CDS)**

- 36 Credit rating agencies lag market events and therefore do not provide investors with an up to date picture of the credit quality of a particular institution. A CDS is a financial instrument which insures against the risk of a counterparty defaulting on its credit. When the cost of this insurance is highest, then it is more likely that the market considers a credit event will occur. Each month Arlingclose provides CDS spreads information enabling the Treasury Team to monitor short, medium and long term trends of CDS spreads. If there is a spike in the values of CDS's due to adverse market conditions, then Arlingclose alert the Treasury Team immediately.



## Specified Investments

- 37 Specified investments offer relatively high security and high liquidity. These investments can be used with minimal procedural formalities. The DCLG Guidance defines specified investments as those denominated in sterling, with a maturity of no more than a year and invested with one of the UK Government, a UK local authority, parish council or community council or a body or investment scheme of “high credit quality”.
- 38 The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

## Non-Specified Investments

- 39 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor with any low credit quality bodies.
- 40 Non-specified investments will therefore be limited to long-term investments i.e. those that are due to mature 12 months or longer from the date of arrangement, unrated funds and unrated organisations.
- 41 The majority of the Council’s investments will be made for relatively short periods and in highly credit rated investments, giving priority to security and liquidity ahead of yield.
- 42 Limits on non-specified investments are shown in the table below.

	<b>Cash limit</b>
Total long-term investments	£25m
Total investments without credit ratings or rated below A- (includes other local authorities)	£50m
Total non-specified investments	£75m

- 43 The table below sets out investment limits

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	<b>£10m each</b>
UK Central Government	<b>unlimited</b>
Any group of organisations under the same ownership	<b>£10m per group</b>

Any group of pooled funds under the same management	<b>£25m per manager</b>
Negotiable instruments held in a broker's nominee account	<b>£30m per broker</b>
AAA sovereign rated foreign countries	<b>£20m per country</b>
AA+ sovereign rated foreign countries	<b>£10m per country</b>
Unsecured investments with Building Societies	<b>£10m in total</b>
Money Market Funds	<b>£50m in total</b>

### **Security of Capital: The use of Credit Ratings**

- 44 This Council relies on credit ratings published by the ratings agencies Fitch, Moodys and Standard and Poors to establish the credit quality of counterparties and investment schemes. The lowest available credit rating will be used to determine credit quality. Credit rated institutions are selected using criteria based on the country, also known as sovereign rating if the institution is not UK.

#### **Monitoring of credit ratings:**

- The Council has access to Fitch, Moodys and Standard & Poors credit ratings and is alerted to changes through e-mail updates.
- The Council invests in UK or specified AAA / AA+ sovereign rated countries, to improve the potential for diversification and also to optimise access to investments in the world's highest rated institutions the total maximum that can be invested in a AAA sovereign rated individual country is £20m and £10m individual country maximum for AA+ sovereign rated.
- If a counterparty or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion on the lending list will be considered and put to the Director of Finance and Assets for approval.
- From time to time an institution will be placed on negative watch or negative outlook, indicating that a downgrade is either likely or possible in the future. Watches are considered short term actions, whereas outlooks are considered over a longer time horizon. If an institution is on negative watch so that it is likely to fall below the above criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced.

### **Use of Specified and Non-Specified Investments**

- 45 The use of specified and non-specified investments is limited to those set out above. The Director of Finance and Assets will keep the use of such investments under continuous review in the light of risk, liquidity and return. No additions will be made without the approval of the Council, following appropriate consultation.

### **Investment balances / Liquidity of investments**

- 46 Based on its cash flow forecasts, the Council anticipates its fund balances in 2018/19 to range between £5m and £50m. A prime consideration in the investment of fund balances is liquidity and the Council's forecast cash flow. Investments are made in accordance with this Annual Investment Strategy and the investment strategies approved by the Director of Finance and Assets during the year.

### **Policy on Use of Financial Derivatives**

- 47 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits).
- 48 The general power of competence in section 1 of the Localism Bill 2011 removes much of the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The Council's use of standalone financial derivatives would be subject to agreement by the Treasury Management Group.
- 49 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they represent will be managed in line with the overall treasury risk management strategy.

### **Provisions for Credit-related losses**

- 50 If any of the Council's investments appear at risk of loss due to default the Council will make revenue provision of an appropriate amount; although, the Council will make all reasonable attempts to secure any potential defaults prior to such an occurrence.

### **Reporting & Governance Arrangements**

- 51 The treasury strategy, six monthly review and annual activity reports are presented to the Regulatory and Audit Committee. The Council's investments, agreed lending list and strategy are reviewed on a monthly basis by the Treasury Management Group which includes the Cabinet Member for Resources, the Deputy Cabinet Member for Resources, the Director of Finance and Assets and other key officers; the Prudential Indicators are reviewed quarterly at this meeting.

### **Non-Treasury Investments**

- 52 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

### **Training**

- 53 Member and officer training is essential in terms of understanding roles and keeping up to date with changes. It is an essential component of the CIPFA Treasury Management Code of Practice; to address this training need, training will be provided to all members of the Regulatory & Audit Committee and key officers attend relevant courses / seminars on treasury management.

### **Treasury Management Advisers**

- 54 The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues. However, responsibility for final decision making remains with the Council and its officers. The services received include advice and guidance on relevant policies, strategies and reports, advice on investment decisions, notification of credit ratings and changes, other information on credit quality, advice on debt management decisions, accounting advice, reports on treasury performance, forecasts of interest rates and training courses for officers and members.
- 55 The quality of this service is reviewed by participating in CIPFA's treasury management benchmarking and monitoring investment performance against a weighted average LIBID.

### **Investment of Money Borrowed in Advance of Need**

- 56 The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the

intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

- 57 The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

### **Minimum Revenue Provision Policy Statement**

- 57 Prior to 2008/09, the Council in accordance with legislation made a contribution from revenue to cover 4% of the unfinanced borrowing that has been undertaken to support the capital programme. This contribution is called the Minimum Revenue Provision (MRP).
- 58 The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008, with further guidance provided by the DCLG document, Capital Finance Guidance on Minimum Revenue Provision (February 2012) giving Council's the flexibility to change their MRP provisions provided they could demonstrate that they remain a prudent basis over which to repay debt. The Council has chosen to take advantage of this flexibility.
- 59 Where capital expenditure was incurred before 1 April 2008 MRP will be charged on a straight line basis over 50 years in accordance with the guidance. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using a more complex calculation called the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage.
- 60 In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.
- 61 The asset life annuity method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined under delegated powers to the Director of Finance and Assets, with regard to the statutory guidance.
- 62 However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate.
- 63 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be

divided up in cases where there are two or more major components with substantially different useful economic lives.

- 64 The government consulted on changes to the prudential framework of capital finance in November 2017 and we await feedback from government on their proposed changes. We do not believe that these changes will have a fundamental impact on our MRP calculations for future years. Under the proposed changes there will be enhanced disclosures around investment properties, explaining why local authorities have chosen to make these acquisitions, rather than just disclosing what they have acquired. A Capital Strategy will also be produced under the proposed changes.

**Background Papers**

CIPFA Code of Practice on Treasury Management in the Public Service revised 2011

DCLG Guidance on Local Government Investments revised in 2010

Communities and Local Government Guidance on MRP February 2012.

Director of Finance and Assets

5 February 2018