TORRIDGE DISTRICT COUNCIL

Treasury Management and Investment Strategy for Year Ending 31 March 2020

1.0 BACKGROUND

1.1 The proposed Treasury Management and Investment Strategy for the financial year 2019/20 are set out in accordance with the CIPFA Code of Practice on Treasury Management. The Strategy is in line with the Prudential Indicators approved by Council.

2.0 BORROWINGS

2.1 No new long-term loans were taken out with the Public Works Loan Board (PWLB) during 2018/19.

2.2 Borrowings from PWLB at 31 March 2019 will total £0.952m. The next scheduled redemption occurs in March 2020 when a maturity type loan of £0.138m will be settled. Further ahead there are 5 fixed interest rate loans outstanding totalling £0.814m with redemption dates that run from March 2020 to March 2027.

2.3 The approved Prudential Indicators do not envisage that any further long-term borrowing will be undertaken in the year 2019/20. The Waste Review report approved by Full Council on 23rd January 2017, highlighted the potential requirement for up to £4.00m of external borrowing linked to the purchase of a new depot and this was incorporated into the 2017/18 Capital Programme.

2.4 The Prudential Indicators on Appendix 3 to this report have been compiled on the assumption that the borrowing will take place in the 2020/21 financial year however the timing will be dependent upon the progress made with the project, the financial climate and the availability of internal resources.

2.5 The Council will ensure that borrowing will only be undertaken when it is identified that there is a need to do so.

2.6 The existing debt and loan schedule was considered in 2017/18 and it was concluded that there was no advantage from re-scheduling or early redemption of existing loans.

3.0 INVESTMENTS

3.1 The Annual Investment Strategy for the forthcoming year is prepared in accordance with guidance issued under the Local Government Act 2003.

3.2 On 31st March 2019 short-term investments placed with financial institutions are estimated to be approximately £9m. The bulk of this amount represents the balances on Reserves and Usable Capital Receipts.

3.3 The Capital Programme for 2019/20 will be financed from capital receipts, grants and contributions, revenue contributions, reserves and borrowing. Internal borrowing may also be utilised in the implementation of parts of the Waste Review and this will reduce the funds available for investment.

3.4 The Investment Strategy during 2018/19 has been to spread the maturity of investments to take advantage of the small premium for investing for longer periods whilst matching ongoing cashflow requirements including the delivery of the capital programme.

3.5 The Investment Strategy for 2019/20 will be to spread the investments across counterparties to minimise risk. Investment periods are expected to be maintained despite the lower level of cash balances resulting from capital expenditure, this will maximise the limited returns available whilst interest rates are expected to remain at their current level. It is anticipated that the level of investments will reduce further due to a projected budget shortfall and continued capital expenditure.

4.0 INTEREST RATES

4.1 During 2018/19 the Bank of England Bank Base Interest Rate was Increased from 0.50% to 0.75%.

4.2 The interest rate indications in the November 2018 Bank of England Inflation Report indicate an expectation that the Bank Base Rate will move upwards, but this move will be "gradual and limited". The consequences arising from the EU referendum decision has introduced uncertainties into the economy. The value of sterling fell following the EU referendum making exported goods more competitive whilst the price of imported goods has become more expensive and in turn this has caused inflationary pressures, though the Bank of England expects to bring this back towards it's 2% target. The nature of Brexit will affect the UK economy.

4.3 Short-term interest rates are around 0.75% for 3 months rising to 1.0% approaching one year. Long-term interest rates (1 year and beyond) have remain subdued because of low gilt prices and are currently below 2.0%. Interest rates available to the Torridge will be slightly lower because of the limited names on Counterparty List and the size of the amounts that we invest.

5.0 COUNTERPARTY LIST & LIQUIDITY FRAMEWORK

5.1 The security of an investment should be considered paramount together with liquidity to ensure that an investment will be repaid on the due date. These will be considered of greater importance than yield. Investment yield will only be considered after security, liquidity and market sector risk have been evaluated.

5.2 In order to minimise the risk from a failed deposit-taker the Council sets a maximum investment amount and a maximum holding with any institution limit.

The current limits are:

- Maximum Investment amount to £3m.
- Maximum holding with any individual institution £5m

The Councils counterparty list includes all Fitch F1 rated UK Banks and Building Societies.

5.3 The Authority will only undertake Specified Investments, which are denominated in sterling. Such investments can only be made with the United Kingdom Government, another local authority, or a body awarded a high credit rating by a credit rating agency. The Authority will not undertake Non-specified Investments. This strategy will avoid being locked into lower rates when interest rates rise and to ensure flexibility to fund the capital programme.

5.4 For the purposes of this Strategy a high credit rating is defined as short-term F1 or better as rated by Fitch Ratings Ltd. The Senior Capital Accountant maintains a counterparty list comprising UK Government Departments, UK Local Authorities and major banks and building societies with a minimum credit rating of Fitch F1 that operate in the local authority market. Guidance recommends that other factors and information such as the sovereign rating of a country or market data regarding the sector or the counterparty should also be considered.

5.5 Link Asset Services (formerly known as Capita Asset Services) are engaged as the council's external Treasury advisors. As part of their service they undertake a monthly review of investments held and produce a report to confirm the credit strength of investments held.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

5.6 The list attached at Appendix 2 contains counterparties comprising UK Government Departments, UK Local Authorities and major banks and building societies with a minimum credit rating of Fitch F1 that operate in the local authority market. The Credit ratings of the Counterparty List will be monitored at least quarterly to ensure they continue to meet the council's requirements. Credit ratings of relevant counterparties will be checked on the day of (and prior to) the investment being placed. Some counterparties are not taking further deposits as they do not require further funding and this could limit our ability to invest at the most beneficial rates from time to time.

5.7 It is inevitable that as part of daily transactions and cash management, sums will be held with the council's bankers consistent with the council's cash management needs. The Council appointed Lloyds Bank as its bankers with effect from 1 January 2015 for 5 years.

At the Mid Year Treasury Review, the maximum bank account balance the council is authorised to hold with its bankers (Lloyds), to enable the day to day running of the council, was increased from £5m to £8m.

5.8 The Council has previously approved Svenska Handelsbanken to operate a call/short term notice account and will be operated when the interest rates on offer are competitive. Interest rates on call accounts will vary from time to time and it may be necessary to change providers from time to time.

6.0 DELEGATION

6.1 It should be recognised that the background to this Strategy may change very quickly which is why the detailed operation of the Treasury Management function is delegated to the S151 Officer.

The S151 (responsible) officer is responsible for:-

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; recommending the appointment of external service providers.

Members should recognise that decisions often have to be taken quickly in the light of prevailing circumstances and that the strategy may therefore need to change during the

course of the year.
The Council's Community and Resources Committee receive reports on treasury management policies, practices and activities and make recommendations to full Council.

7.0 TREASURY MANAGEMENT INDICATORS

7.1 The Indicators for Treasury Management are as follows;

7.2 The Council must set limits to contain the activity of the treasury function within certain limits. An upper limit is required on its fixed and variable interest rate exposures for outstanding principal sums on both borrowing and investment.

Upper limit on interest rate exposure % Principal outstanding	2018/19 Estimate	2018/19 Forecast Actual for 31st March	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fixed Interest Rate Exposures	100%	100%	100%	100%	100%
Variable Interest Rate Exposures	20%	0%	0%	0%	0%

7.3 Upper and lower limits are needed for the maturity structure of borrowing. The amount of projected borrowing that is at a fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period:

	2018/19 Actual	Lower limit	Upper limit
Under 1 year	17%	0%	30%
1 year < 2 years	12%	0%	30%
2 years < 5 years	54%	0%	60%
5 years < 10 years	17%	0%	60%
10 years and above	0%	0%	100%

7.4 There are no sums invested for longer than 365 days.

8.0 The CIPFA Code requires the Responsible Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. The need for Member training in treasury management will be revisited during 2019/20.