St Albans City and District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2016/17

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash expenditure during the year will be met by cash raised. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans are an important factor in calculating the borrowing need of the Council. This relates essentially to the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority'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."*

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important, report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary. It will also provide an update on whether the treasury strategy is meeting the Council's requirements or if any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations, compared to the estimates within this strategy.

Scrutiny

The reports above are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003; the CIPFA Prudential Code; Department for Communities and Local Government (DCLG) MRP Guidance; the CIPFA Treasury Management Code; and DCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This applies especially to members responsibe for scrutiny. For this Council, the responsible officer is the Deputy Chief Executive (Finance). Treasury training was made available to members during the year.

The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process. Training needs are also assessed when the responsibilities of individual members of staff change. Officers attend training courses, seminars and conferences provided by Capita Asset Services and CIPFA, regularly.

1.5 Treasury management consultants

The Council uses Capita Asset Services, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It 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. They will also be subjected to regular review.

2. Capital Issues

2.1 Capital Plans

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.2 Capital Prudential Indicators 2016/17 – 2018/19

Capital Expenditure. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of the 2016/17 budget cycle.

Capital Expenditure	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£'M	£'M	£'M	£'M	£'M
General Fund (GF)	**6.7**	**3.8**	**21.2**	**2.8**	**0.2**
Housing Investment Programme (HIP)					
Housing stock enhancements	10.9	9.3	10.4	6.5	6.0
Non-HRA items	2.6	2.7	6.0	3.7	2.1
Total HIP	**13.5**	**12.0**	**16.4**	**10.2**	**8.1**
Total capital expenditure	**20.2**	**15.8**	**37.6**	**13.0**	**8.3**

General Fund capital spend is forecast to be £3.8 million in 2015-16. Plans for 2015/16 included the first phase of a City Centre Opportunity Site project (CCOS - £4.5 million), and this has now been re-phased to 2016/17. Other items included in the capital budget for 2016/7 are the New Museum and Galleries (NMG) project (£4.6M); the Museum of St Albans (MoSTA) project (£2.9M); and a capital budget for the Council to make capital purchases relating to operational contracts (£8.0M). The Council can obtain more favourable interest rates on borrowing than are generally available in the market to non-government organisations. Where contract savings or efficiencies can be made from the Council financing the capital requirements of the contract, this will be considered. Capital proposals for 2017/18 and 2018/19 are for the completion of the NMG and MoSTA capital projects.

The HRA spend on ongoing enhancements to housing stock in 2015-16 is forecast to be £9.3 million, which will be met from housing rental income. Other housing expenditure is forecast to be £2.7 million, which will be met from accumulated capital receipts, grants and contributions to expenditure. The 2016/17 programme includes plans to increase the quantity of affordable housing in the District.

Capital financing. The tables below show how the capital expenditure plans above are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing), which in turn will result in an increase in MRP charge to the revenue account.

Financing Total	2014/15 Actual £'M	2015/16 Estimate £'M	2016/17 Estimate £'M	2017/18 Estimate £'M	2018/19 Estimate £'M
Total Spend	**20.2**	**15.8**	**37.6**	**13.0**	**8.3**
Financed by:					
Capital Receipts	2.4	2.4	9.7	5.9	2.2
Capital Grants and contributions	3.2	1.0	3.8	0.6	0.1
Revenue/revenue reserves	11.0	9.7	10.8	6.5	6.0
Total Financed	**16.6**	**13.1**	**24.3**	**13.0**	**8.3**
Net funding need for the year	**3.6**	**2.7**	**13.3**	**-**	**-**

Financing GF	2014/15 Actual £'M	2015/16 Estimate £'M	2016/17 Estimate £'M	2017/18 Estimate £'M	2018/19 Estimate £'M
GF spend	**6.7**	**3.8**	**21.2**	**2.8**	**0.2**
Financed by:					
Capital Receipts	0.2	0.1	3.7	2.2	0.1
Capital Grants and contributions	2.1	0.6	3.8	0.6	0.1
Revenue/revenue reserves	0.8	0.4	0.4	-	-
GF financed	**3.1**	**1.1**	**7.9**	**2.8**	**0.2**
GF funding need for the year	**3.6**	**2.7**	**13.3**	**-**	**-**

Financing HIP	2014/15 Actual £'M	2015/16 Estimate £'M	2016/17 Estimate £'M	2017/18 Estimate £'M	2018/19 Estimate £'M
HIP spend	**13.5**	**12.0**	**16.4**	**10.2**	**8.1**
Financed by:					
Capital Receipts	2.2	2.3	6.0	3.7	2.1
Capital Grants and contributions	1.1	0.4	-	-	-
Revenue/revenue reserves	10.2	9.3	10.4	6.5	6.0
HIP financed	**13.5**	**12.0**	**16.4**	**10.2**	**8.1**
HIP funding need for the year	**-**	**-**	**-**	**-**	**-**

The General Fund (GF) capital programme is not fully funded and will require prudential borrowing. This may be from internal cash balances in the first place and external borrowing if cash balances become insufficient. The unfunded amount of £13.3M will require an increase in charges to the GF of £1.2M from 2015/16 to 2016/17, as shown in 2.3 below.

Any shortfall in capital receipts and other funding will increase the funding need and the charge to the General Fund.

Key estimates relating to funding are:

- Officers are considering financing the capital content of supplier contract tenders (e.g. waste management). This is because the Council can obtain more favourable interest rates on borrowing than is generally available in the market to non-government organisations. The Council will have to fund the capital purchase from borrowing. It has been assumed that the charges for interest and MRP will be met from contract savings over the life of the assets.
- The funding of 2016/17 capital expenditure includes a total of £10.3M of capital receipts, grants and contributions. This includes a £6.4M capital receipt from the MoSTA development and £3.9M from fundraising and other capital grants. Capital receipts from the MoSTA development have been assumed at £8.5M, which enables a contribution of £2.1M to the repayment of debt. We have assumed that capital funding will be received in accordance with plans developed by Community Services.

The Housing capital programme (HIP) is fully funded. It has been assumed that the Disabled Facility Grant will cease from 2016/17 and that grants made will be funded from Capital Receipts.

2.3 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). This shows the total of historic capital expenditure which has not yet been paid for from either revenue or capital resources. This can be met from internal borrowing (use of cash balances) or by external borrowing.

Capital Financing Requirement (CFR) TOTAL	2014/15 Actual £'M	2015/16 Estimate £'M	2016/17 Estimate £'M	2017/18 Estimate £'M	2018/19 Estimate £'M
Brought Forward	**212.1**	**211.4**	**211.2**	**219.4**	**210.3**
Funding need for the year	3.6	2.7	13.3	-	-
MRP/VRP	(4.3)	(2.9)	(5.1)	(9.1)	(6.1)
Movement in CFR	**(0.7)**	**(0.2)**	**8.2**	**(9.1)**	**(6.1)**
Closing CFR balance	**211.4**	**211.2**	**219.4**	**210.3**	**204.2**

Capital Financing Requirement (CFR) GF	2014/15 Actual £'M	2015/16 Estimate £'M	2016/17 Estimate £'M	2017/18 Estimate £'M	2018/19 Estimate £'M
Brought Forward	**25.3**	**28.1**	**29.9**	**42.3**	**40.2**
Funding need for the year	3.6	2.7	13.3	-	-
MRP and VRP	(0.8)	(0.9)	(0.9)	(2.1)	(2.1)
Movement in CFR	**2.8**	**1.8**	**12.4**	**(2.1)**	**(2.1)**
Closing CFR balance GF	**28.1**	**29.9**	**42.3**	**40.2**	**38.1**

Capital Financing Requirement (CFR) HRA	2014/15 Actual £'M	2015/16 Estimate £'M	2016/17 Estimate £'M	2017/18 Estimate £'M	2018/19 Estimate £'M
Brought Forward	**186.8**	**183.3**	**181.3**	**177.1**	**170.1**
Funding need for the year	-	-	-	-	-
Transfer from MRR	-	-	-	-	(4.0)
VRP for debt repayment	(3.5)	(2.0)	(4.2)	(7.0)	(4.0)
Movement in CFR	**(3.5)**	**(2.0)**	**(4.2)**	**(7.0)**	**(8.0)**
Closing CFR balance HRA	**183.3**	**181.3**	**177.1**	**170.1**	**162.1**

MRP/VRP: Minimum or Voluntary Revenue Provision as defined in 2.4 below

The GF CFR increases in 2015/16 and 2016/17 as some projects are unfunded. The NMG and MoSTA projects are currently expected to be fully funded and therefore they have no impact on the CFR balance. However, any shortfall in funds raised will result in an increase MRP charge to the GF. The CFR initially increases as unfunded capital expenditure occurs and then decreases as MRP charges to the GF Income and Expenditure Account are made.

The HRA is fully funded and the decrease in HRA CFR represents the provisions made in the HRA revenue account for the repayment of debt.

2.4 Minimum Revenue Provision (MRP) policy statement or Debt Repayment Provisions Policy

The Council is required to put aside money for the financing of capital expenditure that has not been met from grants, contributions or capital receipts. It is also required to adopt a policy to determine the basic amount of this, called the minimum revenue provision (MRP). The Council is also allowed to undertake additional voluntary payments if it wishes (voluntary revenue provision (VRP)).

The Council's policy is that for all unsupported borrowing, MRP will be calculated using the Asset Life Method – i.e. the MRP will be based on the estimated life of the assets. This provides for a reduction in the borrowing over approximately the assets expected useful life.

Within the asset life method there is the option of providing MRP on a straight line basis or an annuity basis. For income producing assets where income is expected to increase over time, the asset value is high and the asset life is long, it is appropriate to use the annuity method. This takes into account the time value of money in that the annual MRP provision increases each year in line with an estimated interest rate. Council agreed at the 2013/14 budget setting that MRP be provided for Westminster Lodge over 35 years with an interest rate of 2.2%.

Under the Housing Self Financing reform, the HRA is required to charge depreciation on its assets, which has a revenue effect. The provision for depreciation provides cash for housing capital works.

There is no requirement to provide MRP in the HRA. Nevertheless, a voluntary provision has been incorporated into the 30 year business plan to enable repayment of debt to be made when it becomes due. However, following recent intervention in rent setting by central government, whereby rents must be decreased by 1% per annum for four years from 2016/17, the HRA goes into deficit in 2021/22. Officers are investigating ways of mitigating this.

2.5 Affordability Prudential Indicators

The previous sections show capital expenditure and borrowing prudential indicators. However, within this framework we also need prudential indicators to assess the affordability of the capital investment plans i.e. the impact on revenue. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.5.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income). This is set against the Council's net revenue stream for the General Fund (taxation and non-specific grant income) and the HRA.

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Fund	4.3%	4.6%	5.2%	12.1%	12.5%
HRA	52.8%	67.3%	54.3%	67.4%	56.9%

The estimates of financing costs include current commitments and the proposals in this report.

For the GF, financing costs at these levels are sustainable in the short to medium term based on the 10 year GF plan. The ratio is increasing over the period under review. On the one hand, government funding is decreasing (on top of a basis of zero income tax increases for several years' grants). On the other hand, MRP is increasing due to the capital expenditure on Sports and Leisure Facilities, Museums and capital equipment for contracts. The annual MRP charge of around £1M arising from £8M of expenditure is forecast to be met by an equivalent saving in costs over the life of the assets. It is therefore cost neutral to the GF.

The HRA 30 year plan, presented in the budget, forecasts that from 2020/21 the HRA is unable to provide sufficient income to maintain the housing stock at required levels and also provide for debt repayment. This is two years earlier than forecast in last year's TMSS due central government rent intervention mentioned in 2.4 above.

2.5.2 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the budget, compared to the Council's existing (2015/16) approved commitments and current plans. The indicator is expressed as an annual monetary change to band 'D' income tax.

Incremental impact of capital investment decisions on the band D council tax

GF	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council tax implication band 'D'	**£2.19**	**£15.31**	**-£0.69**

The increases in the table above represent 0.96% or less of the 2015/16 average Band 'D' council tax for the authority.

2.5.3 Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the budget compared to the Council's existing commitments and current plans. This is expressed as a monetary impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

HRA	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Housing rent implication per week	**£0.03**	**-£0.26**	**-£0.04**

This indicator shows the revenue impact on proposed capital changes against the approved 2015/16 capital budget. The amounts in the table above represent less than 0.24% of the 2015/16 average weekly rent. The negative figures result from a reduction in capital spend over the next three years at a greater rate than the net reduction in properties.

2.5.4 HRA ratios

The first table below highlights how the debt revenue ratio decreases as debt is repaid at a greater rate than the reduction in rent revenue mentioned in 2.4 above.

HRA	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA debt	£186.6M	£184.6M	£180.4M	£173.4M	£165.4M
HRA revenues	£28.6M	£28.4M	£28.0M	£27.0M	£26.9M
Ratio debt to revenues	**652.4%**	**650.0%**	**644.4%**	**642.4%**	**615.0%**

The next table shows how the debt per property decreases as debt is repaid. This is the case even though the number of properties reduces each year by an estimated net of the number of Right-To-Buy sales and the number of new house purchases.

HRA	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA debt	£186.6M	£184.6M	£180.4M	£173.4M	£165.4M
Number of HRA dwellings	5,024	5,009	4,999	4,989	4,981
Debt per dwelling	**£37,142**	**£36,854**	**£36,095**	**£34,764**	**£33,214**

3. Treasury Management Issues

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with relevant professional codes. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 External Borrowing Requirements

The Council's treasury portfolio position at 31 March 2015, with forward projections, are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The model is used to highlight any amounts of external borrowing required each year in order to manage the capital plans in 2 above.

Critical Assumptions:
Balanced GF and HRA budgets
Increase in MRP due to contract capital matched by revenue savings
No change to working capital requirements
No slippage in capital programmes
Capital receipts relating to MoSTA development totalling £8.5M in 2017/18 and other capital funding of £2.2M in 2016/17.

External Borrowing Requirement		2014-2015 Actual £'m	2015-2016 Estimate £'m	2016-2017 Estimate £'m	2017-2018 Estimate £'m	2018-2019 Estimate £'m
CFR closing		**211.4**	**211.2**	**219.4**	**210.3**	**204.2**
External Borrowing balance (Gross Debt)		**186.6**	**184.6**	**192.4**	**179.4**	**173.4**
(Under)/over borrowed		**(24.8)**	**(26.6)**	**(27.0)**	**(30.9)**	**(30.8)**
Reconciliation to Balance Sheet as follows:						
Reserves & Balances	A	(28.3)	(33.5)	(21.5)	(26.0)	(26.1)
Working capital surplus	B	(5.1)	(7.1)	(7.1)	(7.1)	(7.1)
Cash and investments opening		9.5	8.6	14.0	1.6	2.2
Movements before debt items		2.6	7.4	(20.2)	13.6	6.2
Debt repayment		(3.5)	(2.0)	(4.2)	(15.0)	(8.0)
Borrowing required		-	-	12.0	2.0	2.0
Cash and investments closing	C	8.6	14.0	1.6	2.2	2.4
(Under)/over borrowed	**(A+B+C)**	**(24.8)**	**(26.6)**	**(27.0)**	**(30.9)**	**(30.8)**
Movement on External Borrowing						
External borrowing		190.1	186.6	184.6	192.4	179.4
Increase in borrowings		-	-	12.0	2.0	2.0
Debt repayment		(3.5)	(2.0)	(4.2)	(15.0)	(8.0)
Balance on external borrowing		**186.6**	**184.6**	**192.4**	**179.4**	**173.4**

The table above shows the end of year position for 2014/15 and estimated year end positions for the following 4 years. We currently forecast to borrow an additional £12.0M in 2016/17. It may also be necessary to borrow short term funds during the year to cover cash flow requirements. If capital funding from receipts or grants is reduced or delayed, external borrowing (and associated charges to the GF) will increase. Conversely, if the capital programme is delayed or not implemented as currently planned, borrowing and charges will reduce.

3.2 Borrowing Limits

The Operational Boundary.

This focuses on the day-to-day treasury management activity. Total external borrowing is not normally expected to exceed this limit.

The limit for other long-term liabilities was increased by Council on 14th October 2015 and the General Fund limit reduced to keep the Total limit at £213M. We need to ensure that we are able to borrow to meet the capital plans proposed in the budget and leave some headroom. Therefore, an increase in the operational boundary for external debt for the GF by £4M to £20M is recommended. The table below shows existing and proposed limits:

Operational Boundary for External Debt	2014/15 Actual £'M	2015/16 Estimate £'M	2016/17 Estimate £'M	2017/18 Estimate £'M	2018/19 Estimate £'M
General Fund	20	16	20	20	20
HRA	192	192	192	192	192
Other Long Term Liabilities	1	5	5	5	5
Total	**213**	**213**	**217**	**217**	**217**

The Authorised Limit for external borrowing.

This further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing, which, while not desired, the Council could afford in the short term, but is not sustainable in the longer term. It gives some headroom for unforeseen requirements or delays in capital receipts.

We propose no change from previously authorised limits, which are:

Authorised Limit for External Debt	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£'M	£'M	£'M	£'M	£'M
General Fund	27	23	23	23	23
HRA	192	192	192	192	192
Other Long Term Liabilities	1	5	5	5	5
Total	**220**	**220**	**220**	**220**	**220**

Separately, the Council is also limited to a maximum HRA borrowing position through the Housing Self Finance regime of £192 million.

HRA debt limit	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£'M	£'M	£'M	£'M	£'M
HRA debt cap	192.0	192.0	192.0	192.0	192.0
HRA CFR	183.3	181.3	177.1	170.1	162.1
Headroom	**8.7**	**10.7**	**14.9**	**21.9**	**29.9**

As mentioned in 2.5.1 above, the HRA generates sufficient cash to enable debt to be repaid on the due date until 2020/21. Officers and are considering ways to address the shortfall beyond this date.

3.3 Prospects for Interest Rates

Capita Asset Services' view on interest rates and economic outlook, as at 1st November 2015, is given below.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2015	0.50	2.30	3.60	3.50
Mar 2016	0.50	2.40	3.70	3.60
Jun 2016	0.75	2.60	3.80	3.70
Sep 2016	0.75	2.70	3.90	3.80
Dec 2016	1.00	2.80	4.00	3.90
Mar 2017	1.00	2.80	4.10	4.00
Jun 2017	1.25	2.90	4.10	4.00
Sep 2017	1.50	3.00	4.20	4.10
Dec 2017	1.50	3.20	4.30	4.20
Mar 2018	1.75	3.30	4.30	4.20
Jun 2018	1.75	3.40	4.40	4.30
Sep 2018	2.00	3.50	4.40	4.30
Dec 2018	2.00	3.50	4.40	4.30
Mar 2019	2.00	3.60	4.50	4.40

We remain in a very difficult investment environment. While counterparty risk appears to have eased, market sentiment has sometimes been subject to bouts of extreme volatility and economic forecasts are uncertain. However, we have also a very accommodating monetary policy - reflected in a 0.5% Bank Rate. As a consequence, we continued to experience low returns from deposits in 2015/16 and investment returns are likely to remain relatively low during 2016/17 and beyond.

Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served the Council well over the last few years. However, we will keep this under review to avoid incurring higher borrowing costs in later times. In future, the Council may not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

3.4 Treasury Management Indicators within the Treasury Management Code

The purpose of these indicators is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set too restrictively they will impair the opportunities to reduce costs / improve performance. The indicators are:

Interest Rate Exposure:

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures, expressed as a percentage of net principal borrowed will be unchanged from last year at:

	2016/17	2017/18	2018/19
	%	%	%
Upper Limit on Fixed Interest Rate Exposure	100.00%	100.00%	100.00%
Upper Limit on Variable Interest Rate Exposure	10.00%	10.00%	10.00%

i.e. up to 100% of borrowing can be at fixed rates, or up to 10% at variable rates.

All current borrowings are at fixed rates. Therefore officers have the flexibility to select fixed or variable rates on any future loans as long as they do not exceed the approved variable limit above.

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to risk from having to pay back significant amounts of debt all at the same time. The upper and lower limits on the maturity structure of fixed rate borrowings have been kept broad to allow flexibility in the structuring of debt and remain at:

	Upper Limit	Lower Limit	Actual
	%	%	%
Under 12 months	10.0	-	1.1
12 months and within 24 months	10.0	-	2.2
24 months and within 5 years	20.0	-	11.8
5 years and within 10 years	50.0	20.0	31.6
10 years and within 20 years	80.0	50.0	53.3

The actual debt profile is within the approved limits.

Principal sums invested for periods longer than 364 days

The limits have remained the same as those approved last year.

Limit on principal invested beyond 12 months	2016/17	2017/18	2018/19
	£m	£m	£m
Local Authorities	5.0	5.0	5.0
Other	1.0	1.0	1.0

3.5 Borrowing Strategy

The Council is currently maintaining an under-borrowed position, i.e. it is running down its investment balances rather than borrow. This strategy recognises that investment returns are low and counterparty risk is relatively high.

Against a background of risks within the economic forecast, caution will be adopted with the 2016-17 treasury operations. The Deputy Chief Executive (Finance) will monitor interest rates in financial markets. He will adopt a pragmatic approach to changing circumstances in deciding whether to take out fixed or variable rate loans.

The Council may also borrow for short periods of time (normally for up to two weeks) to cover unexpected cash flow shortages.

Sources of Borrowing

The approved sources of long-term borrowing will be:

- Public Works Loans Board
- Any Institution approved for investment
- Any Bank or Building Society approved by the Bank of England Prudential Regulation Authority.

3.6 Policy on Borrowing in Advance of Need

The Council may borrow in advance of need for short periods where a review of capital spending profile and views on future interest rates makes it economically attractive.

3.7 Policy on charging interest to the Housing Revenue Account

The Council is free to adopt its own policy on sharing interest costs and income between the General Fund and Housing Revenue Account (HRA). This follows the reform of housing finance. The CIPFA Code recommends that authorities state their policy on this matter each year in their treasury management strategy.

On 1 April 2012, the Council assigned the long term HSF loan to the HRA pool. New long-term loans borrowed will be assigned in their entirety to either the General Fund or the HRA pool. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be allocated in line with each specific loan.

An HRA cash flow balance is calculated each month and interest on this balance transferred between the General Fund and HRA. This is at the monthly net average rate earned by the Council on its portfolios of treasury investments and any short-term borrowing.

3.8 Investment Policy and Annual Investment Strategy

Investment Policy: The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance"). It has regard also to the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be:

- Security; then
- Liquidity; then
- Return.

Officers are also aware of the 'Wednesbury Principles', whereby 'ethical' investments could be open to challenge if regarded as indefensible and a waste of public funds. Nevertheless, St Albans City and District Council supports the concept of responsible investment. The Council expects institutions it deposits funds with, through its treasury management function, to comply with internationally accepted norms. These include norms for the environment, human rights, working conditions, corruption and controversial weapons. The Council will seek to avoid placing funds with institutions that do not have a similar responsible investment policy.

Investment Strategy: To minimise the risk to investments, the Council has stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list (see Appendix 1). Other information sources used will include the financial press, share price and other such banking sector information. The objective is to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investments will be made with reference to cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

For cash flow generated balances, the Council will seek to use its business reserve accounts, 15 and 30 day notice accounts, and short-dated deposits (overnight to three months). In this way is will benefit from the compounding of interest.

The Deputy Chief Executive (Finance) will maintain a counterparty list in compliance with the following criteria. He will revise the criteria and submit them to Council for approval as necessary.

3.9 Creditworthiness policy

3.9.1 Credit Ratings

The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Spreads (CDS) to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This results in three suggested credit assessments as follows:

A) Based on the credit ratings of the agencies only
B) Adjusted for watch/outlook
C) Where applicable the end result is adjusted for CDS information with a manual override.

These indicate an overall assessment of the relative creditworthiness of counterparties at increasing levels of risk aversion.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system. This is combined with an overlay of CDS spreads for which the end product is a series of colour coded bands indicating the relative creditworthiness of counterparties.

The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Officers propose to continue to use the lowest risk rating 'C' for all investments.

3.9.2 Credit Periods

Capita Asset Services then allocate a colour code within each credit assessment level to indicate the maximum duration period for each counterparty. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the durational bands shown in Appendix1.

Officers propose that the Council continue to use up to the maximum investment duration indicated by Capita Asset Services in the 'C' risk rating category.

3.9.3 Country Limits

Council agreed at the meeting of 26th February 2013 that 20% of funds invested, measured at the time the investment is made, can be invested in non-UK banks. These banks must be members of the Organisation for Economic Co-operation and Development (OECD). A list of current members is at Appendix 2.

Officers propose no change to these limits.

3.9.4 List of Counterparties

The application of credit ratings, credit periods and country limits lead to an amended list of counterparties each with 3 credit assessments with associated maximum investment durations.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria;

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to recall or sale of all other existing investments with the affected counterparty.

A list of counterparties amended by the country limits is shown at Appendix 1. Capita Asset Services update the list on a weekly basis.

3.9.5 Counterparty Limits

Counterparty limits for value and period by type of counterparty are proposed by officers, in consultation with the Resources Portfolio Holder. The objective is to have a mix of investments, limiting exposure to any one counterparty and limiting exposure to long term deposits.

Officers propose no change to the counterparty limits, which are shown at appendix 3.

3.9.6 Non-specified investments

The Council is required to state whether it is intending to use any of what the Government calls "Non-specified investments" (See Appendix 3). The Council's policy is that the only situation where we will use these is in the case of long-term investments, (i.e. those that would meet the definition of a specific investment, but for the fact that they are due to mature 12 months or longer from the date of arrangement).

The limit for these Non-Specified investments remains at £5m (see 3.4 above for where such investments can be placed).

Appendices

1. Capita Asset Services listing of Qualifying Counterparties (as at 13/11/15)
2. List of OECD members (November 2015)
3. Treasury Management Criteria Summary
4. Example of weekly investment list
5. Four Clauses adopted from CIPFA's Treasury Management Code of Practice

Appendix 1

Capita Asset Services listing of Qualifying Counterparties (as at 13/11/15)

Showing suggested maximum duration of investment.

Weekly Credit List: 13/11/2015				
	A	**B**	**C**	
	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	Suggested Duration (CDS Adjusted with manual override)	
Australia				
Australia and New Zealand Banking Group Ltd	O - 12 mths	O - 12 mths	O - 12 mths	
Commonwealth Bank of Australia	O - 12 mths	O - 12 mths	O - 12 mths	
Macquarie Bank Limited	R - 6 mths	R - 6 mths	G - 100 days	
National Australia Bank Ltd	O - 12 mths	O - 12 mths	O - 12 mths	
Westpac Banking Corporation	O - 12 mths	O - 12 mths	O - 12 mths	
Belgium				
BNP Paribas Fortis	R - 6 mths	R - 6 mths	R - 6 mths	
KBC Bank NV	R - 6 mths	R - 6 mths	R - 6 mths	
Canada				
Bank of Montreal	O - 12 mths	O - 12 mths	O - 12 mths	
Bank of Nova Scotia	O - 12 mths	O - 12 mths	O - 12 mths	
Canadian Imperial Bank of Commerce	O - 12 mths	O - 12 mths	O - 12 mths	
National Bank of Canada	R - 6 mths	R - 6 mths	R - 6 mths	
Royal Bank of Canada	O - 12 mths	O - 12 mths	O - 12 mths	
Toronto Dominion Bank	O - 12 mths	O - 12 mths	O - 12 mths	
Denmark				
Danske Bank	R - 6 mths	R - 6 mths	G - 100 days	
Finland				
Nordea Bank Finland plc	O - 12 mths	O - 12 mths	O - 12 mths	
Pohjola Bank	O - 12 mths	O - 12 mths	O - 12 mths	
France				
BNP Paribas	R - 6 mths	R - 6 mths	R - 6 mths	
Credit Agricole Corporate and Investment Bank	R - 6 mths	R - 6 mths	R - 6 mths	
Credit Industriel et Commercial	R - 6 mths	R - 6 mths	R - 6 mths	
Credit Agricole SA	R - 6 mths	R - 6 mths	R - 6 mths	
Societe Generale	R - 6 mths	R - 6 mths	R - 6 mths	
Germany				
BayernLB	G - 100 days	G - 100 days	G - 100 days	
Deutsche Bank AG	G - 100 days	G - 100 days	G - 100 days	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	O - 12 mths	O - 12 mths	O - 12 mths	
Landesbank Baden Wuerttemberg	R - 6 mths	R - 6 mths	R - 6 mths	
Landesbank Berlin AG	R - 6 mths	O - 12 mths	O - 12 mths	
Landesbank Hessen-Thueringen Girozentrale (Helaba)	R - 6 mths	O - 12 mths	O - 12 mths	
Landwirtschaftliche Rentenbank	P - 24 mths	P - 24 mths	P - 24 mths	
NRW.BANK	P - 24 mths	P - 24 mths	P - 24 mths	
Netherlands				
ABN AMRO Bank N.V.	R - 6 mths	R - 6 mths	R - 6 mths	
Bank Nederlandse Gemeenten	P - 24 mths	P - 24 mths	P - 24 mths	
Cooperatieve Centrale Raiffeisen Boerenleenbank BA	O - 12 mths	O - 12 mths	O - 12 mths	
ING Bank NV	R - 6 mths	R - 6 mths	R - 6 mths	
Nederlandse Waterschapsbank N.V	P - 24 mths	P - 24 mths	P - 24 mths	
Sweden				
Nordea Bank AB	O - 12 mths	O - 12 mths	O - 12 mths	
Skandinaviska Enskilda Banken AB	O - 12 mths	O - 12 mths	O - 12 mths	
Swedbank AB	O - 12 mths	O - 12 mths	O - 12 mths	
Svenska Handelsbanken AB	O - 12 mths	O - 12 mths	O - 12 mths	*
Switzerland				
Credit Suisse AG	R - 6 mths	R - 6 mths	R - 6 mths	
UBS AG	R - 6 mths	R - 6 mths	R - 6 mths	

U.S.A				
Bank of America, N.A.	R - 6 mths	R - 6 mths	R - 6 mths	
Bank of New York Mellon, The	O - 12 mths	O - 12 mths	O - 12 mths	
Citibank, N.A. ~	R - 6 mths	R - 6 mths	R - 6 mths	
JPMorgan Chase Bank NA	O - 12 mths	O - 12 mths	O - 12 mths	
Wells Fargo Bank NA	P - 24 mths	P - 24 mths	P - 24 mths	
U.K Banks and Building Societies				
Abbey National Treasury Services plc	R - 6 mths	R - 6 mths	R - 6 mths	
Bank of New York Mellon (International) Ltd	P - 24 mths	P - 24 mths	P - 24 mths	
Barclays Bank plc	R - 6 mths	R - 6 mths	R - 6 mths	*
Citibank International Plc	R - 6 mths	R - 6 mths	R - 6 mths	
Close Brothers Ltd	R - 6 mths	R - 6 mths	R - 6 mths	
Goldman Sachs International Bank	R - 6 mths	R - 6 mths	R - 6 mths	
HSBC Bank plc	O - 12 mths	O - 12 mths	O - 12 mths	*
Santander UK plc	R - 6 mths	R - 6 mths	R - 6 mths	*
Standard Chartered Bank	O - 12 mths	O - 12 mths	R - 6 mths	
Sumitomo Mitsui Banking Corporation Europe Ltd	O - 12 mths	O - 12 mths	R - 6 mths	
UBS Ltd	R - 6 mths	R - 6 mths	R - 6 mths	
Coventry BS	R - 6 mths	R - 6 mths	R - 6 mths	*
Leeds BS	R - 6 mths	R - 6 mths	R - 6 mths	
Nationwide BS	R - 6 mths	R - 6 mths	R - 6 mths	*
Yorkshire BS	G - 100 days	G - 100 days	G - 100 days	n
AAA rated and Government backed securities				
Collateralised LA Deposit*	Y - 60 mths	Y - 60 mths	No Data Available	
Debt Management Office	Y - 60 mths	Y - 60 mths	No Data Available	
Supranationals	Y - 60 mths	Y - 60 mths	No Data Available	
UK Gilts	Y - 60 mths	Y - 60 mths	No Data Available	
Nationalised and Part Nationalised				
Lloyds Banking Group plc				*
Bank of Scotland Plc	R - 6 mths	R - 6 mths	R - 6 mths	
Lloyds Bank Plc	R - 6 mths	R - 6 mths	R - 6 mths	
Royal Bank of Scotland Group plc				
National Westminster Bank Plc	B - 12 mths	B - 12 mths	Not Applicable	
The Royal Bank of Scotland Plc	B - 12 mths	B - 12 mths	Not Applicable	

KEY
* Invested with at 13/11/15 see appendix 4
n New counterparty from last year's list

Includes Foreign banks in OECD countries
Maximum non-UK investment to be 20% of total investments at time of investment
Column C in the table above will be used for all investments.

Y	Yellow	60 months
DP	Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
LP	Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
P	Purple	24 months
B	Blue	12 months Nationalised and part nationalised UK banks
O	Orange	12 months
R	Red	6 months
G	Green	100 days
NC	No colour	Not to be used

Appendix 2

List of OECD Members

Country	Date
AUSTRALIA	07-Jun-71
AUSTRIA	29-Sep-61
BELGIUM	13-Sep-61
CANADA	10-Apr-61
CHILE	07-May-10
CZECH REPUBLIC	21-Dec-95
DENMARK	30-May-61
ESTONIA	09-Dec-10
FINLAND	28-Jan-69
FRANCE	07-Aug-61
GERMANY	27-Sep-61
GREECE	27-Sep-61
HUNGARY	07-May-96
ICELAND	05-Jun-61
IRELAND	17-Aug-61
ISRAEL	07-Sep-10
ITALY	29-Mar-62
JAPAN	28-Apr-64
KOREA	12-Dec-96
LUXEMBOURG	07-Dec-61
MEXICO	18-May-94
NETHERLANDS	13-Nov-61
NEW ZEALAND	29-May-73
NORWAY	04-Jul-61
POLAND	22-Nov-96
PORTUGAL	04-Aug-61
SLOVAK REPUBLIC	14-Dec-00
SLOVENIA	21-Jul-10
SPAIN	03-Aug-61
SWEDEN	28-Sep-61
SWITZERLAND	28-Sep-61
TURKEY	02-Aug-61
UNITED KINGDOM	02-May-61
UNITED STATES	12-Apr-61

Appendix 3

Treasury Management Criteria Summary

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to the suggested duration as calculated by Capita Asset Services from time to time.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. For this Council these are qualifying investments with maturities exceeding one year. A maximum of £5m will be held in aggregate in non-specified investments.

Country Limits

UK: 100%

Non-UK: 20% (measured as at time of investment) **and** OECD membership countries **and** restricted to countries rated AAA with all three rating agencies.

Qualifying Counterparties

Counterparties appearing on the Capita Asset Services list of qualifying counterparties from time to time, together with UK local authorities or supranationals.

Time and monetary limits applying to investments

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both Specified and Non-Specified Investments):

	Existing Limit	**Proposed Limit**	**Max. maturity period**	**Sector Rating**
Cash deposits with DMO at the Bank of England	No limit	No limit	Liquid	N/A
Cash or Term deposits with Local authorities	£5m	£5m	3 years	N/A
Cash or Term deposits with UK Nationalised and Part Nationalised Banks	£5m	£5m	On call	C
	£5m	£5m	Up to 1 year	C
	£1m	£1m	Up to 3 years	C
Cash or Term deposits with banks and building societies (per CAPITA list as updated from time to time)	£5m	£5m	On call	C
	£5m	£5m	Up to 3 months	C
	£5m	£5m	Over 3 months up to 1 year	C
	£1m	£1m	Over 1 year up to 2 years	C
	£1m	£1m	Over 2 years up to 3 years	C

Key:

C CDS adjusted with manual override column of Capita Asset Services credit rating list (Appendix 1)

Highlighted items represent a change from prior year.

Other
The local authority limit applies to the entire Local Authority sector.

A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Appendix 4

Example of investment list using the list in appendix 1 and the criteria in appendix 3

SUMMARY OF INVESTMENTS W/E - 13.11.15								
BORROWER	LIMIT		INV NO	START DATE	END DATE	INT RATE	INV VALUE	LIMIT BAL.
	£						£	£
Deposits with DMO (0 - 60mths)	Unlimited					0.250%	0	
							0	Unlimited
Deposits with Other Local Authorities (up to 3 years)	5,000,000	Entire Local Authority sector						
							0	5,000,000
Deposits with UK nationalised and part nationalised (up to 12mths)	5,000,000	Per Bank						
Lloyds Banking Group (0 - 6mths)			3008	29/07/15	29/01/16	0.700%	5,000,000	0
Royal Bank of Scotland (0 - 12mths)				various	CALL	0.250%	0	5,000,000
							5,000,000	
UK Banks and Building Societies	5,000,000	Per Bank						
Barclays Bank PLC *(0 - 6mths)*				01/09/2015	01/03/2016	0.690%	5,000,000	
Nationwide B S *(0 - 6mths)*				01/09/2015	19/11/2015	0.480%	2,000,000	
				01/10/2015	17/11/2015	0.450%	1,000,000	
				01/10/2015	19/11/2015	0.450%	2,000,000	
Nationwide Total							5,000,000	
Coventry B S *(0 - 6mths)*				02/11/2015	17/02/2016	0.480%	5,000,000	
							0	
Coventry Total							5,000,000	
HSBC Bank PLC *(0 - 12mths)*			3005	various	CALL	0.350%	5,000,000	
Santander UK plc *(0 - 6mths)*				95 day notice	04/04/1900	0.900%	5,000,000	
							25,000,000	
Non UK, Non Eurozone Banks (No more than 20%, measured at the time of investment)	5,000,000	Per Bank						
Handelsbanken *(0 - 12mths)*				various	CALL	0.400%	2,985,000	
							2,985,000	2,015,000
					TOTAL		**32,985,000**	

The institutions available for investment and actual period limits will be determined by Capita Asset Services's credit rating list issued from time to time (see Appendix 1), and using the monetary limits set by Council (see Appendix 3).

Appendix 5

Four Clauses adopted from CIPFA's Treasury Management Code of Practice

The Council has adopted the key principles of CIPFA's *2011 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance* (the Code), as described in Section 4 of that Code.

1. The Council will create and maintain, as the cornerstones for effective treasury management:
    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
    - 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.

   The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its financial year-end, in the form prescribed in its TMPs.

3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to the Deputy Chief Executive (Finance), who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Statement of Professional Practice on Treasury Management.

4. This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.