

Agenda for a meeting of the Governance and Audit Committee to be held on Tuesday, 28 March 2017 at 11.00 am in Committee Room 1 - City Hall, Bradford

Members of the Committee – Councillors

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT
M Pollard	Johnson Thornton Swallow	J Sunderland

Alternates:

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT
Ellis	Farley Watson	Fear

Notes:

- This agenda can be made available in Braille, large print or tape format on request by contacting the Agenda contact shown below.
- The taking of photographs, filming and sound recording of the meeting is allowed except if Councillors vote to exclude the public to discuss confidential matters covered by Schedule 12A of the Local Government Act 1972. Recording activity should be respectful to the conduct of the meeting and behaviour that disrupts the meeting (such as oral commentary) will not be permitted. Anyone attending the meeting who wishes to record or film the meeting's proceedings is advised to liaise with the Agenda Contact who will provide guidance and ensure that any necessary arrangements are in place. Those present who are invited to make spoken contributions to the meeting should be aware that they may be filmed or sound recorded.
- If any further information is required about any item on this agenda, please contact the officer named at the foot of that agenda item.

From:

Parveen Akhtar
City Solicitor

Agenda Contact: Fatima Butt - 01274 432227

Phone: 01274 432227

E-Mail: fatima.butt@bradford.gov.uk

To:



A. PROCEDURAL ITEMS

1. ALTERNATE MEMBERS (Standing Order 34)

The City Solicitor will report the names of alternate Members who are attending the meeting in place of appointed Members.

2. DISCLOSURES OF INTEREST

(Members Code of Conduct - Part 4A of the Constitution)

To receive disclosures of interests from members and co-opted members on matters to be considered at the meeting. The disclosure must include the nature of the interest.

An interest must also be disclosed in the meeting when it becomes apparent to the member during the meeting.

Notes:

- (1) *Members may remain in the meeting and take part fully in discussion and voting unless the interest is a disclosable pecuniary interest or an interest which the Member feels would call into question their compliance with the wider principles set out in the Code of Conduct. Disclosable pecuniary interests relate to the Member concerned or their spouse/partner.*
- (2) *Members in arrears of Council Tax by more than two months must not vote in decisions on, or which might affect, budget calculations, and must disclose at the meeting that this restriction applies to them. A failure to comply with these requirements is a criminal offence under section 106 of the Local Government Finance Act 1992.*
- (3) *Members are also welcome to disclose interests which are not disclosable pecuniary interests but which they consider should be made in the interest of clarity.*
- (4) *Officers must disclose interests in accordance with Council Standing Order 44.*

3. MINUTES

Recommended –

That the minutes of the meeting held on 28 February 2017 be signed as a correct record (previously circulated).

(Fatima Butt – 01274 432227)



4. INSPECTION OF REPORTS AND BACKGROUND PAPERS

(Access to Information Procedure Rules – Part 3B of the Constitution)

Reports and background papers for agenda items may be inspected by contacting the person shown after each agenda item. Certain reports and background papers may be restricted.

Any request to remove the restriction on a report or background paper should be made to the relevant Strategic Director or Assistant Director whose name is shown on the front page of the report.

If that request is refused, there is a right of appeal to this meeting.

Please contact the officer shown below in advance of the meeting if you wish to appeal.

(Fatima Butt - 01274 432227)

B. BUSINESS ITEMS

5. AUDIT STRATEGY MEMORANDUM 2016/17 - WEST YORKSHIRE PENSION FUND

The External Auditor will submit **Document “AG”** which reports on the Audit Strategy Memorandum for West Yorkshire Pension Fund and sets out the audit plan for 2016/17. The document:

- describes External Audit’s approach to the audit opinion on the accounts;
- includes External Audit’s assessment of the significant risks of material misstatement in the accounts; and
- outlines the proposed testing strategy to address the identified risks.

Recommended-

That the Committee considers the Audit Strategy Memorandum for West Yorkshire Pension Fund for 2016/17.

(Steve Appleton – 01274 432392)



6. **TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY 2017/18**

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. 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 or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The Strategic Director of Corporate Services will submit **Document "AH"** which shows the Council's Treasury Strategy for borrowing for the three financial years commencing 2017/18 and the Annual Investment Strategy for 2017/18.

Resolved-

That the Treasury Management Policy (Document "AH") be noted and referred to Council for adoption.

(David Willis – 01274 432361)

7. **EXCLUSION OF THE PUBLIC**

Recommended –

That the public be excluded from the meeting during the consideration of the items relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meeting held on 26 January 2017 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.

8. **MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 26 JANUARY 2017**

The Council's Financial Regulations require the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund will submit **Not for Publication Document "AI"** which reports on the minutes of the meeting of the WYPF Investment Advisory Panel held on 26 January 2017.



Recommended –

That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 26 January 2017 be considered.

(Rodney Barton – 01274 432317)

THIS AGENDA AND ACCOMPANYING DOCUMENTS HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER



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Report of the External Auditor to the meeting of Governance and Audit Committee to be held on 28 March 2017.

Subject:

AG

Audit Strategy Memorandum 2016/17

Summary statement:

The Audit Strategy Memorandum sets out the plan for the external audit of West Yorkshire Pension Fund for 2016/17.

Mark Kirkham
Partner
Mazars LLP
Report Contact: Steve Appleton
Phone: (01274) 432392
E-mail: steve.appleton@mazars.co.uk

1. SUMMARY

The Audit Strategy Memorandum sets out our audit plan for 2016/17. The document:

- describes our approach to the audit opinion on the accounts;
- includes our assessment of the significant risks of material misstatement in the accounts; and
- outlines the proposed testing strategy to address the identified risks.

We have identified significant risks of material misstatement relating to:

- management override of controls which is common to all entities subject to audit; and
- the valuation of unquoted investments.

This is a major audit so Mazars have appointed an engagement quality control reviewer (EQCR) to review quality.

2. BACKGROUND

International Standards on Auditing (ISAs) require external auditors to communicate with Those Charged with Governance (TCWG) on a number of matters (see page 8 of the Audit Strategy Memorandum for full details) including significant audit risks and how the auditor proposes to address them.

3. OTHER CONSIDERATIONS

None.

4. OPTIONS

Not applicable.

5. FINANCIAL & RESOURCE APPRAISAL

Not applicable.

6. RISK MANAGEMENT AND GOVERNANCE ISSUES

None.

7. LEGAL APPRAISAL

Not applicable.

8. OTHER IMPLICATIONS

8.1 EQUALITY & DIVERSITY

Not applicable.

8.2 SUSTAINABILITY IMPLICATIONS

Not applicable.

8.3 GREENHOUSE GAS EMISSIONS IMPACTS

Not applicable.

8.4 COMMUNITY SAFETY IMPLICATIONS

Not applicable.

8.5 HUMAN RIGHTS ACT

Not applicable.

8.6 TRADE UNION

Not applicable.

8.7 WARD IMPLICATIONS

Not applicable.

9. NOT FOR PUBLICATION DOCUMENTS

None.

10. RECOMMENDATION

That the Governance and Audit Committee consider the Audit Strategy Memorandum for West Yorkshire Pension Fund for 2016/17.

11. APPENDICES

The Audit Strategy Memorandum for West Yorkshire Pension Fund.

12. BACKGROUND DOCUMENTS

None.

Audit Strategy Memorandum

West Yorkshire Pension Fund

For the year ended 31 March 2017



Contents

Executive summary	3
Purpose of this report	3
Audit scope and approach	4
Significant risks and key judgements	6
Timetable and communication	7
Fees	9
Our team	10
Appendix A – Service organisations and experts	11
Appendix B – Independence	12
Appendix C - Materiality	13
Appendix D – Our added value	14

Executive summary

Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of West Yorkshire Pension Fund 'the Fund' for the year ending 31 March 2017, and forms the basis for discussion at the Governance and Audit Committee meeting on 28 March 2017.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process. We have determined that the Governance and Audit Committee is those charged with governance for the purpose of our audit.

Timing of our work	Our audit will be delivered in four main phases as outlined in page 8 of this report. The statutory deadline for the completion of our audit work is 30 September 2017.
Financial Statements audit	Significant risks We have identified the following areas in which we will carry out specific audit procedures to mitigate the risks of material misstatements: <ul style="list-style-type: none">• management override of controls; and• valuation of unquoted investments for which a market price is not readily available. Materiality At the planning stage of the audit we have set materiality for the financial statements as a whole at £47.96m. In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £1.44m.
Independence	We have considered any actual, potential or perceived threats to our independence on page 14. We have not identified any such threats at this stage of the audit.

Audit scope and approach

The scope of our work

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ('the 2014 Act') and are summarised below.

Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Fund for the year.

Our audit does not relieve management or the City of Bradford MDC's Governance and Audit Committee, as those charged with governance, of their responsibilities.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and consider any objection made to the accounts by an elector. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our response to the risk of fraud

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however, our audit should not be relied upon to identify all such misstatements.

Management and the Governance and Audit Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

Our enquiries will focus on:

- what role the Governance and Audit Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We have formally written to you, in your role as those charged with governance, making the enquiries above.

Our approach to obtaining assurance over service organisations

There are material entries in your financial statements where the Fund is dependent on an external organisation. We call these entities service organisations. In Appendix A, we outline our approach to understanding the services received from each organisation and the approach we intend to take to obtain sufficient appropriate evidence over items of account that derive from them.

Our use of experts and other auditors

Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

In addition to setting out information in respect of service organisations, Appendix A also summarises management's experts and our planned audit approach to obtaining assurance over their work.

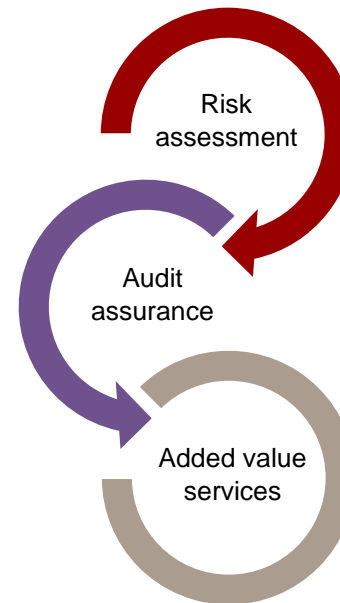
Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

We plan to take a wholly substantive audit approach and will not therefore be placing direct reliance on internal audit work in 2016/17. We will continue to liaise with internal audit to inform our risk assessment.

Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Fund, while ensuring compliance with underlying auditing standards.

We focus on the risks that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

Significant risks and key judgements

Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Fund's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Governance and Audit Committee as part of our Audit Completion Report.

Significant risk	How we will mitigate the risk
<p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We will address this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
<p>Valuation of unquoted investments for which a market price is not readily available</p> <p>As at 31 March 2016 the fair value of investments which were not quoted on an active market was £1.5 billion, which accounted for 14 per cent of net investment assets. The values used in the accounts are those provided by fund managers which are based on Net Asset Value statements. This results in an increased risk of material misstatement.</p>	<p>In addition to our standard programme of work in this area we will undertake the following tests:</p> <ul style="list-style-type: none"> • review the management controls in place to assess the reasonableness of the valuation; • agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; • agree the investment manager valuation to audited accounts. Where these are not available, agree the investment manager valuation to other independent supporting documentation; • where audited accounts are available, check that they are supported by a clear opinion; and • where available, review any independent control assurance reports and confirm that they do not highlight any risks of material mis-statement.

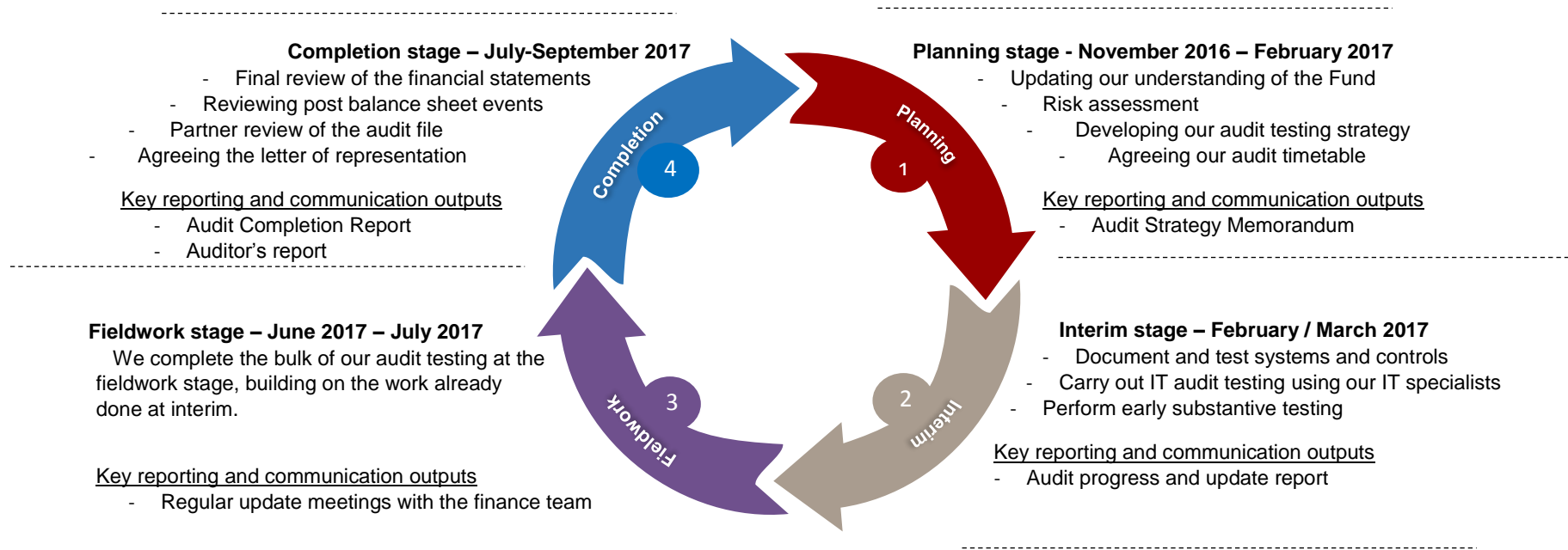
Timetable and communication

Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Governance and Audit Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Governance and Audit Committee and officers as being critical to building a robust knowledge of your operations, the risks and challenges you face and the plans you have in place to meet those challenges.

Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Governance and Audit Committee are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in March 2017, and our Audit Completion Report in September 2017.



Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below.

Matter to be communicated	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Confirmation of our independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Conclusions on the significant audit risks and areas of management judgement		✓
Summary of unadjusted misstatements		✓
Management representation letter		✓
Our proposed audit report		✓

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Governance and Audit Committee through our Audit Progress Reports, presented on a quarterly basis. We also report to the Council on an annual basis to summarise our work and main conclusions through our Annual Audit Letter.

Fees

Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter dated 15 April 2016.

Area of work	2016/17 proposed fee	2015/16 final fee
Code audit work	48,546	48,546

Fees for non-PSAA work

We do not currently plan to carry out any non-PSAA work.

Our team



Mark Kirkham – Engagement Lead

mark.kirkham@mazars.co.uk

0191 383 6350

Mark has been the engagement lead at the Fund since 2013.



Steve Appleton – Engagement Manager

steve.appleton@mazars.co.uk

0191 383

Steve has been manager at the Fund since 2013. Steve will manage and coordinate the different parts of the audit. He will be the key point of contact for the finance team



Sharon Liddle – Team Leader

sharon.liddle@mazars.co.uk

0191 383 6311

Sharon has been team leader on the audit since 2013. Sharon will be a key contact for the finance team, leading the day-to-day audit, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

In accordance with our internal policies for audit quality and risk management, we consider the audit of the Fund to be a 'major audit'. As a result, and in line with the requirements of International Standards on Quality Control (ISQC) 1, the firm's Risk Management Partner has appointed an Engagement Quality Control Reviewer to the Fund's audit who will bring an additional level of quality control to the engagement team.

Appendix A – Service organisations and experts

Service organisations

As we outline in the main body of this report, the Fund makes use of service organisations. ISA 402 defines a service organisation as one that provides services to another entity that form part of that entity's information systems relevant to financial reporting. The table below sets out the service organisations that we have identified as part of our planning work together with a description of how we intend to obtain assurance over the entries in your financial statements that are derived from them.

Service organisation	Services provided	Planned audit approach
There are a number of service organisations providing this service.	Investment managers who provide information for the valuation of unquoted investments recognised in the Net Assets Statement	We will substantively test valuations at the year end.
HSBC	Custodian	
HSBC	Stock lending including information used for the stock lending disclosure note	

Experts

The Fund also uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Fund to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

Financial statement area	Management's expert	Planned audit approach
Disclosure notes on the funding arrangements and actuarial present value of promised retirement benefits.	Actuary Aon Hewitt	Review and consideration of work undertaken by the NAO's consulting actuary (PWC).
Disclosure notes on the nature and extent of risk arising from financial instruments	State Street	Consider the reasonableness of State Street's output and assess expertise and experience of expert.
Valuation of unquoted investments not traded on active markets	Investment managers	Substantive procedures

Appendix B – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with either Mark or Steve.

Prior to the provision of any non-audit services, the engagement partner will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. No threats to our independence have been identified.

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning our audit, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix D – Our added value

Our primary responsibilities as the Fund’s external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.

Insight

Analysis of emerging issues shared regularly with you through our Audit Progress Reports.

Sharing knowledge from our membership of a range of professional networks including those hosted by the ICAEW and NAO.

Regular updates from our public services advisory team on lessons learned from its work across the UK public sector.

Access to our public sector governance forum allowing free and open discussion of governance issues.

Expertise

Specialist public sector financial reporting advisory service, providing expert analysis of emerging accounting issues.

A dedicated IT audit and advisory team, with expertise and experience of providing services across the public sector.

Provision of annual accounting workshops attended by your finance team.

Support for continuous improvement

Clear and open communication, allowing for a sensible basis of resolving emerging issues.

Internal control recommendations and follow-up work in conjunction with internal audit.

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Report of the Strategic Director Corporate Services to the meeting of Governance and Audit Committee to be held on 28 March 2017.

AH

Subject:

Treasury Management Policy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy 2017/18.

Summary statement:

This report shows the Council's Treasury Strategy for borrowing for the three financial years commencing 2017/18 and the Annual Investment Strategy for 2017/18.

Stuart McKinnon- Evans
Director of Finance

Portfolio:
Leader

Report Contact: David Willis
Phone: (01274) 432361
E-mail: david.willis@bradford.gov.uk

Overview & Scrutiny Area:
Corporate



Treasury Management Strategy Policy Statement Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2017/2018

Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. 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 or instruments 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 provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This 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, and whether 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 the strategy.

Scrutiny

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

Treasury Management Strategy for 2017/18

The strategy for 2017/18 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
- Treasury Policy Changes/Issues

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.3 Training

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 training needs of treasury management officers are periodically reviewed.

1.4 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 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.

2.0 The Capital Prudential Indicators 2017/18 -2019/20

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

2.1 Capital expenditure

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

Capital expenditure	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
	70	80	124	155	44

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital receipts	5	6	8	10
Capital grants	40	52	54	72
Revenue & Reserves	7	4		
Net financing need for the year	18	19	61	73

As part of the local government settlement the Government announced greater flexibility for councils in how they make use of capital receipts. Councils were previously only allowed to spend such money on further capital projects or repay debt. But now capital receipts can be used to fund the revenue costs of transformation projects which are designed to

generate ongoing revenue savings in the delivery of public services and/or to transform service delivery in a way that reduces costs or demand for services in the future.

There are no plans to use this flexibility in the 2017/18 financial year. However, given the size and scale of the transformation programme it is possible that the Council may seek approval from the Secretary of State to use capital receipts in this flexible manner in the future.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £199m of such schemes within the CFR.

£m	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement					
Total CFR	666	653	675	707	720
Movement in CFR		-13	+22	+32	+13

2.3 Minimum revenue provision (MRP) policy statement

The Local Government Act 2003 requires the Council to make a provision for the repayment of borrowing used to finance its capital expenditure, known as the Minimum Revenue Provision (MRP).

The MRP is the amount of principal capital repayment that is set aside each year in order to repay the Capital Financing Requirement (CFR) based on the requirement of statutory regulation and the Council's own accounting policies.

The Council is required to state as part of its budget process the policy for determining its MRP. The policy was changed last year generating savings in the current and future years. There are no proposed changes to the policy adopted last year. The method for calculating the MRP on each category of debt is outlined below:

- a) The policy for charging MRP on historic supported borrowing is on the asset life method calculated on an equal instalment basis over 50 years.
- b) Unsupported or prudential borrowing MRP is based on the Asset Life method – that is, the expenditure financed from borrowing is divided by the expected asset life. For schemes funded before 31st March 2012 the MRP is calculated on the annuity basis and for schemes funded after 1st April 2012 the MRP is calculated on an equal instalment basis. This means no change to existing policy.
- c) Since 2009/10 the appropriate financing costs for the Council's Building Schools for the Future (BSF) Private Finance Initiative (PFI) schemes have been included in MRP calculations.

The CFR represents the amount of capital expenditure that has been financed from borrowing, less any amounts that the Council has set aside to repay that debt through the MRP. Borrowing may come from loans taken from the Public Works Loan Board (PWLB) or commercial banks, finance leases (including PFI) or from the use of the Council's own cash balances.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.5 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) against the net revenue stream.

%	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Ratio	16	15.5	16.2	16.5	16.7

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

2.6 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 this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

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

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	0	0	0	0	0

3. Treasury Management

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 the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
External Debt					
Debt at 1 April	391	338	341	342	342
Expected change in Debt	-53	+4			
Other long-term liabilities (OLTL)	203	195	191	187	183
Expected change in OLTL	-8	-4	-4	-4	-4
Actual gross debt at 31 March	533	533	528	525	521
The Capital Financing Requirement	666	653	675	666	653
Under / (over) borrowing	133	120	147	141	132

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Strategic Director Corporate Services reports that the Council complied with this prudential indicator in the current year and does not envisage

difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Debt	380	400	400	400
Other long term liabilities	220	220	220	220
Total	600	620	620	620

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Debt	400	440	440	440
Other long term liabilities	240	240	240	240
Total	640	680	680	680

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
BANK RATE	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3 month LIBID	0.23	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
6 month LIBID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
12 month LIBID	0.63	0.70	0.70	0.70	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
5 yr PWLB	1.38	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	2.11	2.30	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25 yr PWLB	2.78	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40
50 yr PWLB	2.54	2.70	2.70	2.70	2.80	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over

about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, to combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;

- French presidential election April/May 2017;
- French National Assembly election June 2017;
- German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. Funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to

refinance maturing debt; this resulted in borrowing being undertaken in December detailed in the Borrowing Strategy paragraph 3.4.

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is sensible as investment returns are low and counterparty risk is still an issue that needs to be considered.

The level of underborrowing has increased over the last two years and a decision was made in December to take advantage of currently low interest rates to borrow against loans maturing in March 2017. Loans to the value of £25.9m were therefore taken out at an average rate of 2.6187%, and will replace loans of the same amount maturing in March, that have a average interest rate of 8.947%. This will reduce the average interest rate on the overall debt portfolio by 0.5% in March 2017, saving £1.65m per year.

With the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Strategic Director Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are 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 to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

1	2017/18	2018/19	2019/20
Interest rate exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	+175%	+175%	+175%
Limits on variable interest rates based on net debt	+20%	+20%	+20%
Maturity structure of fixed interest rate borrowing 2017/18			
	Lower	Upper	
Under 12 months	0%	20%	
12 months to 2 years	0%	20%	
2 years to 5 years	0%	50%	
5 years to 10 years	0%	50%	
10 years to 20 years	0%	50%	
20 years to 30 years	0%	90%	
30 years to 40 years	0%	90%	
40 years to 50 years	0%	90%	
Maturity structure of variable interest rate borrowing 2017/18			
	Lower	Upper	
Under 12 months	0%	20%	
12 months to 2 years	0%	20%	
2 years to 5 years	0%	20%	
5 years to 10 years	0%	20%	
10 years to 20 years	0%	20%	
20 years to 30 years	0%	20%	
30 years to 40 years	0%	20%	

40 years to 50 years	0%	20%
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3.6 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.7 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Governance and Audit Committee, at the earliest meeting following its action.

Municipal Bond Agency It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB), but at present this remains uncertain.

3.8. Annual Investment Strategy

3.8.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 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 first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in appendix 1 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

3.8.2 Creditworthiness policy

The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

The Strategic Director Corporate Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks/Building Society 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks/building Society; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA-
 and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
 - Short Term – S&P A-1, Fitch F1 and Moody's P-1
 - Long Term – Moody's Aa3
- Banks/Building Society Banks 2 – same as Bank 1 apart from Moody's rating of A1.
- Banks/Building Society 3 – a credit rating of at least one of the following Moody's long term A3, Fitch short term F1 or S & P short term A-1.
- Banks Part nationalised UK bank 4 – Nat West Bank. This bank can be included provided it continues to be part nationalised or it meets the rating in Bank /Building Society 1, 2 or 3 above.
- Bank 5 – The Council's own banker for transactional purposes if the bank falls below the above criteria although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operations-The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Money Market Funds (MMFs) – AAA Moody's Fitch or S&P
- Local authorities, parish councils etc
- UK Government

A limit of 20% will be applied to the use of non-specified investments

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

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):

	Limit	Time Limit
Banks/Building Society 1	£30m	2yrs
Banks/Building Society 2	£20m	1yr
Banks/Building Society 3	£7m	100 days
Bank 4 Nat West Bank	£20m	1yr
Council's banker if below above criteria		Day exposure
Temporary exception from the Treasury policy for schools balances until the main academy conversion process has finished.		Until academy process completed
DMADF	unlimited	6 months
Local authorities	£20m	1yr
Money market funds	£20m	Liquid
UK Government	No limit	2yrs

The proposed criteria for specified and non-specified investments are shown in Appendix 1 for approval.

3.8.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

3.8.4 Investment strategy

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

Investment returns expectations. Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	2017/18	2018/19	2019/20
Principal sums invested > 364 days	£20m	£20m	£20m

For its cash flow generated balances, the Council will seek to utilise money market funds, notice accounts, and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

3.8.5 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, month LIBID compounded un compounded

3.8.6 Treasury Policy Changes /Issues.

The cash balances for the Council are invested at present in liquidity funds ,term deposits, certificate of deposits and Treasury bills. The money market has undertaken great change since 2008 with the number of banks available for the council to invest in and their funding requirements reducing.

With this in mind I purpose we increase the products we are able to invest in to include the following

a)bonds issued by the UK Government and banks/ building society including covered bonds (see Appendix 2 for explanation of these products).

b) Floating rate notes again issued by the UK Government and banks/ building society including covered.

The maturity and credit rating would follow the same criteria as our current investments.

These additions would help in the following way without increasing risk.

i) certain banks only issue in the products above .

ii better rates may be available than we are able to gain from the products we use at present.

iii) Covered bonds and covered floating rate notes have better credit ratings and so offer another layer of protection.

iv) Both bonds and floating rate note notes are tradable and so can be sold before they mature which gives us greater flexibility.

3.8.7 The following change to the Treasury Policy is recommended

Bonds and Floating rate notes issued by the UK government, Banks and Building societies (including covered) be added to the Treasury Policy.

3.8.8 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4. Options

4.1 None.

5. Financial and Resources Appraisal

5.1 The financial implications are set out in section

6. Risk Management

6.1 The whole set of policies and day to day operations of treasury management are designed to assess and mitigate risk.

7. Legal Implications

7.1 Any relevant implications are set out in report.

8. Other Implications

8.1 Equal Rights implications-

8.2 Sustainability implications – no direct implications

8.3 Greenhouse Gas Emissions Impact – no direct implications

8.4 Community safety implications – no direct implication.

8.5 Human Rights Act – no direct implications

8.6 Trade Unions – no direct implications

8.7 Ward implications – no direct implications

9. Not for publications document

10. Recommendations.

10.1 That the Treasury policy set out in section 3.8.7 be noted by Governance and Audit Committee and passed to full council for adoption.

11. Background Documents

Treasury Management Schedules

Treasury Management Schedules

Treasury Policy

12.Appendices

- 1.Specified and Unspecified Investments
- 2.Definition of Bonds ,Covered Bonds and Floating Rate notes.
- 3.Approved countries for investments
- 4.Treasury management scheme of delegation
- 5.The treasury management role of the section 151 officer

Appendix 1 Specified and Unspecified Investments

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

	Minimum credit criteria	Use
Debt Management Agency Deposit Facility	UK sovereign rating	In house
Bonds issued by banks and building societies (including covered)	Moody's Aa3, Fitch F1 and S & P A-1 or above	In house
Bonds issued by banks and building societies	Moody's A1, Fitch F1 and S&P A-1 or above	In house
UK Government Treasury bills	UK sovereign rating	In house
Money Market Funds	AAA	In house
Local authorities	N/A	In house
Term deposits with banks and building societies	Moody's Aa3, Fitch F1 and S & P A-1 or above	In house
Term deposits with banks and building societies	Moody's A1, Fitch F1 and S&P A-1 or above	In house

	Minimum credit criteria	Use
Term deposits with banks and building societies	At least one of Moody's A3, Fitch F1	In house
Certificates of deposit issued by banks and building societies	Moody's Aa3, Fitch F1 and S & P A-1 or above See note 1	In-house
Certificates of deposit issued by banks and building societies	Moody's A1, Fitch F1 and S & P A-1 or above	In house
Floating rate notes issued by banks and building societies (including covered)	Moody's Aa3, Fitch F1 and S & P A-1 or above	In-house
Floating rate notes issued by banks and building societies	Moody's A1, Fitch F1 and S & P A-1 or above	In house
UK Government Bonds	Sovereign rating	In house

NON-SPECIFIED INVESTMENTS: A maximum of 20% will be held in aggregate in non-specified investment

1. Maturities of ANY period

	Minimum Credit Criteria	Use
Term deposits with unrated counterparties with unconditional guarantee from parent	Moody's A3, Fitch F1 and S&P A-1 or above	In-house

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max. maturity period
Term deposits – banks and building societies	Moody's Aa3, Fitch F1 and S & P A-1 or above	In-house	2 years
Certificates of deposit issued by banks and building societies	Moody's Aa3, Fitch F1 and S & P A-1 or above	In-house	2 years
Floating rate notes issued by banks and building societies (including covered)	Moody's Aa3, Fitch F1 and S & P A-1 or above	In house	2 years
Bonds issued by banks and building societies (including covered)	Moody's Aa3, Fitch F1 and S & P A-1 or above	In house	2 years
Bonds issued by UK government	Sovereign rating	In house	2 years

Appendix 2 Definition of Bonds, Floating rate notes

3.1 Floating rate notes (FRNs) are bonds that have a variable coupon, equal to a money market reference rate, which is the London Interbank Over Rate (the rates leading banks charge each other for short term loans) plus an additional amount called spread (generally an extra 0.05% to 0.30% depending on the credit and market conditions). Almost all FRNs have quarterly coupons, i.e. they pay out interest every three months. At the beginning of each coupon period, the coupon is calculated by taking the LIBOR 3 month rate and adding on the spread. A typical coupon would look like 3 months LIBOR +0.20%. The note is negotiable, that is, it can be sold at any time in the secondary market.

3.2 A bond is an instrument of indebtedness of the bond issuer to the holders. It is a debt security, under which the issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay them interest (the coupon) and/or to repay the principal at a later date, termed the maturity date. Interest is usually payable at fixed intervals (semiannual, annual). The bond is negotiable, that is, the bond can be sold at any time in the secondary market.

3.3 Covered bonds/Floating rate notes are debt securities issued by a bank/building societies and collateralised against a pool of assets that, in case of failure of the issuer, can cover claims at any point of time. They are subject to specific legislation to protect bond holders. This means that these bonds have a higher level of protection than a normal bond and so have better credit ratings. The downside is that the return on these assets is lower. Again the instrument can be sold at any time.

Appendix 3 Approved countries for Investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- France
- U.K.

AA-

- Belgium

Appendix 4 Treasury Management Scheme of Delegation.

(i) Full council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Governance and Audit Committee Boards

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

(iii) Internal Audit

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix 5 The Treasury Management Role of the Section 151 Officer.

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- 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;
- approving the appointment of external service providers.

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