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| **Report to:** | **Cabinet** | | |
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| **Date:** | **12th February 2018** | | |
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| **Report of:** | **Borough Treasurer** | **Report No:** | |
| | | | |
| **Contact Officer:** | **Sue Johnson**<br>**Borough Treasurer** | **Tele No:** | **(01204) 331502** |
| | | | |
| **Report Title:** | **Treasury Management and Investment Strategies for 2018/19 to 2020/21** | | |
| | | | |
| **Non Confidential:** | **This report does not contain information which warrants its consideration in the absence of the press or members of the public.** | | |
| | | | |
| **Purpose:** | This report outlines the Council's prudential indicators for 2018/19 – 2020/21 and sets out the expected treasury operations for this period. It fulfils two key legislative requirements:<br>The **treasury management strategy statement** which sets out how the Council's treasury service will support the capital decisions taken on an earlier item, the day to day treasury management and the limitations on activity through **treasury prudential indicators**. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which may not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management; and<br>The **investment strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance. | | |
| | | | |
| **Recommendations:** | **Cabinet is asked to recommend to the Council for Approval:**<br>The Treasury Management Strategy 2018/19 to 2020/21 and the treasury limits on activity contained within this report.<br>The Authorised Limit Prudential Indicator.<br>The Investment Strategy 2018/19 contained in the treasury management strategy. | | |
| **Decision:** | | | |
| **Background Docs:** | | | |

# 1 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.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2011). This Council adopted the Code of Practice on Treasury Management on 15th October 2003, and the revised Code of Practice on 16th February 2010. There has been a subsequent revision "Treasury Management in the Public Services" in December 2017. Whilst there is no obligation to incorporate the 2017 revision into the 2018/19 Strategy, it will be required from 2019/20 onwards. However where possible reference has been made to the revised 2017 Code in this document. This adoption is a requirement of one of the prudential indicators. The Code of Practice is contained in Appendix 1 and the Treasury Management Policy Statement is contained in Appendix 2.

In order to deliver the above range of principles, it is essential that adequate Treasury systems are in place. The Code of Practice recommends that these systems should be included in a Schedule to the Treasury Management Practices. This is intended to be a day to day reference document which supports the Practices. Whilst this schedule is not contained within the Annual Investment Strategy itself the document it is available for inspection

## 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.

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

- 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).

In-year treasury management reports – These will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

A year-end 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 and this role is undertaken by the Audit Committee.

## 1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers;

- 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; and
- creditworthiness policy.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and CLG 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 especially applies to members responsibe for scrutiny. Training was undertaken by members of the Audit Committee in March 2017 and further training will be arranged as required.

The training needs of officers involved with treasury management are periodically reviewed.

1.5 Treasury management advisors

The Council's current external treasury management advisor is Link Asset Services (formerly Capita Asset Services), and the current contract ends on the 31st October 2019.

The Council 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 reviewed prior to the letting of any future contract.

The Council also 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.

## 2 BORROWING

The capital expenditure plans, set out in another item on this agenda, 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 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 approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

2.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2017, with forward projections, is 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 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| **External Debt** | | | | | | |
| Debt at 1 April | 82.908 | 89.911 | 188.894 | 188.877 | 188.610 | 188.593 |
| Expected change in Debt | 7.003 | 98.983 | -0.017 | -0.267 | -0.017 | -0.017 |
| Other long-term liabilities (OLTL) at 1 April | 15.216 | 13.743 | 12.243 | 10.743 | 9.243 | 7.743 |
| Expected change in OLTL | -1.473 | -1.500 | -1.500 | -1.500 | -1.500 | -1.500 |
| **Actual gross debt at 31 March** | **103.654** | **201.137** | **199.620** | **197.853** | **196.336** | **194.819** |
| **The Capital Financing Requirement (CFR)** | **200.927** | **205.195** | **247.295** | **272.195** | **296.895** | **287.995** |
| **Maximum Under Borrowing** | **97.273** | **4.058** | **47.675** | **74.342** | **100.559** | **93.176** |

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 2018/19 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 Borough Treasurer 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.

2.2 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 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| Debt | 228.894 | 228.877 | 228.610 | 228.593 | 228.576 |
| Other long term liabilities | 12.243 | 10.743 | 9.243 | 7.743 | 6.243 |
| **Total** | **241.1** | **239.6** | **237.9** | **236.3** | **234.8** |

**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.

- 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.
- The Council is asked to approve the following authorised limit:

| Authorised limit £m | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| **Total** | **291.1** | **289.6** | **287.9** | **286.3** | **284.8** |

2.3 Prospects for interest rates

The Council has appointed Link 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 their central view.

| | Bank Rate % | PWLB Borrowing Rates % (including certainty rate adjustment) | | | |
|---|---|---|---|---|---|
| | | 5 year | 10 year | 25 year | 50 year |
| Mar-18 | 0.50 | 1.60 | 2.20 | 2.90 | 2.60 |
| Jun-18 | 0.50 | 1.60 | 2.30 | 3.00 | 2.70 |
| Sep-18 | 0.50 | 1.70 | 2.40 | 3.00 | 2.80 |
| Dec-18 | 0.75 | 1.80 | 2.40 | 3.10 | 2.90 |
| Mar-19 | 0.75 | 1.80 | 2.50 | 3.10 | 2.90 |
| Jun-19 | 0.75 | 1.90 | 2.60 | 3.20 | 3.00 |
| Sep-19 | 0.75 | 1.90 | 2.60 | 3.20 | 3.00 |
| Dec-19 | 1.00 | 2.00 | 2.70 | 3.30 | 3.10 |
| Mar-20 | 1.00 | 2.10 | 2.70 | 3.40 | 3.20 |
| Jun-20 | 1.00 | 2.10 | 2.80 | 3.50 | 3.30 |
| Sep-20 | 1.00 | 2.20 | 2.90 | 3.60 | 3.30 |
| Dec-20 | 1.00 | 2.30 | 2.90 | 3.60 | 3.40 |
| Mar-21 | 1.25 | 2.30 | 3.00 | 3.40 | 3.40 |

2.4 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 prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Borough Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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

## 3 Treasury management limits on activity

3.1 There are three debt related treasury activity limits. The purpose of these 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 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 for both investments and debt.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates for both investments and debt

| % | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|
| **Interest rate exposures** | | | |
| | **Upper** | **Upper** | **Upper** |
| **Borrowing - Fixed Interest Rate exposure** | 100% | 100% | 100% |
| **Borrowing - Variable Interest Rate exposure** | 50% | 50% | 50% |
| **Investments - Fixed Interest Rate Exposure** | 100% | 100% | 100% |
| **Investments - Variable Interest Rate Exposure** | 50% | 50% | 50% |
| | | | |

- 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. The Council is asked to approve the following treasury indicators and limits

| **Maturity structure of fixed interest rate borrowing 2017/18** | | |
|---|---|---|
| | **Lower** | **Upper** |
| Under 12 months | 0% | 80% |
| 12 months to 2 years | 0% | 80% |
| 2 years to 5 years | 0% | 80% |
| 5 years to 10 years | 0% | 80% |
| 10 years to 20 years | 0% | 80% |
| 20 years to 30 years | 0% | 80% |
| 30 years to 40 years | 0% | 80% |
| 40 years to 50 years | 0% | 80% |
| 50 years and above | 0% | 80% |

3.2 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.

3.3 Debt rescheduling

With the repayment of all of the Council's PWLB debt following the housing stock transfer in March 2011 the opportunities for debt rescheduling are limited. However if the lenders of the Market Loans exercise their option to increase rates this may provide the Council with an opportunity to switch to either fixed rate or cheaper shorter term debt.

All rescheduling will be reported to Executive Member, Regeneration and Resources at the earliest meeting following its action.

3.4 Sensitivity to interest rate movements

Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to treasury management costs/income for next year. As all borrowing is fixed this change by its nature will not be affected by any interest rate change. This is because should lenders decide to exercise their option to increase the interest rate the Council would exercise its option to repay the debt. Lenders themselves are not going to reduce the rate allowing us to pay a lower charge.

| | 2018/19 | 2018/19 |
|---|---|---|
| | Estimate | Estimate |
| | 1% | -1% |
| | £000 | £000 |
| **Revenue Budgets** | | |
| Interest on Borrowing | 0 | 0 |
| Related HRA Charge | | |
| Net General Fund Borrowing | 0 | 0 |
| Investment Income | 1800 | -1800 |

## 4 ANNUAL INVESTMENT STRATEGY

4.1 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.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This results in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied have become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in section 4.2 below and part 5.4 of the schedule. Counterparty limits will be as set through the Council's treasury management practices schedules.

4.2 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 Borough Treasurer 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 minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria and the other does not, then the institution will fall outside the lending criteria. Credit rating information is supplied by Link Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

| | |
|---|---|
| **Banks 1 -** good credit quality | The Council will only use banks which are UK banks; and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated);<br><br>Short term – F1/P1/A1<br><br>Long term – A-/A3/A- |
| **Banks 2** - Part nationalised UK banks - Lloyds Banking Group (Lloyds Bank and Bank of Scotland) and Royal Bank of Scotland (Royal Bank of Scotland and National Westminster Bank). | These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above. |
| **Banks 3** | The Council's own banker if the bank falls below the above criteria. |
| **Building Societies** | The Council will *use* all societies which meet |

| | |
|---|---|
| | the ratings for Banks 1 outlined above |
| **UK Government (the DMADF)** | |
| **Local authorities, parish councils etc.** | |
| **Money Market Funds** | AAA with a Fixed Net Asset Value (NAV). |

**4.2.1** **Group and sector considerations** - Due care will be taken to consider the group and sector exposure of the Council's investments.

**Use of additional information other than credit ratings -** Additional requirements under the Code requires 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):

| | Fitch Long term Rating (or equivalent) | Money Limit | Time Limit |
|---|---|---|---|
| Banks 1 | F1 | £30m | 1 year |
| Banks 2 – part nationalised | N/A | £30m | 1 year |
| Banks 3 – Council's banker (if not meeting Banks 1 or Banks 2) | N/A | £20m | 1 year |
| Building Societies (meeting the criteria for Banks 1 above) | F1 | £30m | 1 year |
| DMADF | N/A | unlimited | 6 months |
| Local Authorities | N/A | £15m | 3 years |
| Money Market Funds | AAA | £20m | Liquid |

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Borough Treasurer, and if required new counterparties which meet the criteria will be added to the list following approval by the Council. The counterparty list based on the above criteria as at the 1st January 2018 is attached in Appendix 5.

4.3 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 increase slightly from March 2018. Bank Rate forecasts for financial year ends (March) are:

| Year | Rate |
|---|---|
| 2018/19 | 0.75% |
| 2019/20 | 1.00% |
| 2020/21 | 1.25% |

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

**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 | 2018/19 | 2019/20 | 2020/21 |
| Principal sums invested > 364 days | £15m | £15m | £15m |

4.4 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons to the Executive Member Regeneration and Resources

**Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.08% historic risk of default when compared to the whole portfolio.

**Liquidity** – in respect of this area the Council seeks to maintain:

- Liquid short term deposits of at least £10m available with a week's notice
- Weighted average life benchmark is expected to be between 0.25 and 0.75 years.

**Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate.

4.5 End of year investment report

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

**APPENDIX 1**

# TREASURY MANAGEMENT CODE OF PRACTICE

## INTRODUCTION

In 2011 CIPFA issued Codes of Practice on Treasury Management in The Public Services. This was subsequently revised in December 2017/

These were due to increased attention being given to cash management and the Institute felt there was a need for expertise and caution in money market transactions.

As Bolton Council has always adopted a prudent approach to Treasury Management and has worked within the framework of CIPFA recommendations, the new Code of Practice has now been adopted.

As recommended by CIPFA, this document includes a Treasury Policy Statement and Treasury Management Practices (TMPs). The Schedules to the TMPs, various control systems and documentation that relate to Treasury Management in this Authority are held by the Corporate Accounting and Strategy Team.

## CODE OF PRACTICE FOR TREASURY MANAGEMENT IN LOCAL AUTHORITIES

The Code of Practice for Treasury Management in Public Services issued by CIPFA in 2017 sets out a Policy and 12 Treasury Management Practices which Local Authorities are urged to formally adopt.

### Key Principles (section 4 of the 2017 Code)

The Code recommended the formal adoption of the following clauses;

The Council previously adopted on 22nd February 2017 the 3 key principles of CIPFA's "Treasury Management in the Public Services: Code of Practice" (the Code) as described in Section 4 of that Code.

(a) The Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

(b) Policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds

(c) The Council should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this

**Clauses to be formally adopted (section 5 of the 2017 code)**

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 this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

This organisation 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 close, in the form prescribed in its TMPs.

This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Executive Cabinet Member, Regeneration & Resources, and for the execution and administration of treasury management decisions to the Borough Treasurer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

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

## TREASURY MANAGEMENT POLICY STATEMENT (section 6 of the 2017 Code)

This organisation defines its treasury management activities as:

1) The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2) This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3) This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

# TREASURY MANAGEMENT PRACTICES

## TMP 1 – RISK MANAGEMENT

### General statement

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

### [1] credit and counterparty risk management

This organisation will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

### [2] liquidity risk management

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.
This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

[3] interest rate risk management

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

[4] exchange rate risk management

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

[5] inflation risk management

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

[6] refinancing risk management

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

[7] legal and regulatory risk management

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.
This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

[8] fraud, error and corruption, and contingency management

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

[9] price risk management

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## TMP 2 - PERFORMANCE MEASUREMENT

This organisation is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

## TMP 3 – DECISION MAKING AND ANALYSIS

This organisation will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

## TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Where this organisation intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.
This organisation has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

## TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

This organisation considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

## TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Bolton Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies, on the effects of decisions taken and transactions executed in pursuit of those policies, on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its Treasury Management activities and on the performance of the Treasury management function. Cabinet will receive an Annual Report on the Strategy and Plan to be pursued in the coming year.

The Executive Member, Regeneration and Resources will receive regular monitoring reports on treasury management activities and risks. The Audit Committee will have responsibility for the scrutiny of the treasury management policies or practices. Bolton will report the treasury management indicators as detailed in their sector specific guidance notes. The present arrangements and the form of these reports are detailed in the Treasury Management Documentation Papers maintained in the Corporate Accounting and Strategy Team.

## TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.
This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

## TMP 8 - CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

**TMP 9 - MONEY LAUNDERING**

This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

**TMP 10 - STAFF TRAINING AND QUALIFICATIONS**

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
The present arrangements are detailed in the schedule to this document.

**TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS**

This organisation recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

**TMP 12 - CORPORATE GOVERNANCE**

This organisation is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its treasury management activities will be undertaken with openness and transparency, honesty, integrity and accountability.
This organisation has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## Investments that are not part of treasury management activity

Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

## MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

## Counterparty List

The Current (2017/18) Counterparty list based upon the policy in section 4.2 is:

| | **Fitch's** | | **Moody's** | | **S & P** | | | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Short Term** | **Long Term** | **Short Term** | **Long Term** | **Short Term** | **Long Term** | **Time Limit** | **Money Limit** |
| United Kingdom (Sovereign rating) | | AA | | Aa2 | | AA | | |
| Barclays Bank | F1 | A | P-1 | A1 | A-1 | A | 1 year | £20m |
| Bolton at Home | | | | | | | 90 days | £3m |
| Close Brothers Limited | F1 | A | P-1 | Aa3 | | | 1 year | £30m |
| Coventry Building Society | F1 | A | P-1 | A2 | | | 1 year | £30m |
| UK Debt Management Office (which is an Executive Agency of HM Treasury) | | | | | | | 6 months | No limit |
| Goldman Sachs International Bank | F1 | A | P-1 | A1 | A-1 | A+ | 1 year | £30m |
| HSBC Bank | F1+ | AA- | P-1 | Aa3 | A-1+ | AA- | 1 year | £30m |
| Lloyds Bank / Bank of Scotland | F1 | A+ | P-1 | Aa3 | A-1 | A | 1 year | £30m |
| Local Authorities | | | | | | | 3 years | £15m each |
| Money Market Funds | | | | | | | Liquid | £20m each |
| Nationwide Building Society | F1 | A+ | P-1 | Aa3 | A-1 | A | 1 year | £30m |
| Santander UK Plc | F1 | A | P-1 | Aa3 | A-1 | A | 1 year | £30m |
| *Standard Chartered Bank* | *F1* | *A+* | *P-1* | *A1* | *A-1* | *A* | *1 year* | *£30m* |
| *Sumitomo Mitsui Banking Corporation Europe Ltd* | *F1* | *A* | *P-1* | *A1* | *A-1* | *A* | *1 year* | *£30m* |
| *UBS Ltd* | *F1+* | *AA-* | *P-1* | *A1* | *A-1* | *A+* | *1 year* | *£30m* |

Counterparties in italics do not normally borrow from Local Authorities