

Report to	Policy & Resources Committee
Date	27 February 2018
By	Chief Finance Officer
Title of Report (Decision)	Treasury Management Policy Statements and Annual Investment Strategy 2018/19

Recommendation: That the Committee recommend that:

- 1) The Authority approve the Treasury Management Policy Statement 2018/19 and the Treasury Management Practices 2018/19 as set out in Appendices 1 and 2 to this report;**
- 2) The Authority approve the Annual Investment Strategy 2018/19, including the benchmark risk factor of 0.05%, as set out in Appendix 3 to this report**

1. Introduction

- 1.1 This report details the Treasury Management Policy Statement, the Treasury Management Practices and the Annual Investment Strategy to be adopted by the South Downs National Park Authority (the Authority) for 2018/19.
- 1.2 Part 1 of the Local Government Act 2003 requires the Authority to adopt and comply with the requirements of the 'Code of Practice for Treasury Management in the Public Services' issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and to comply with investment guidance issued by the Secretary of State.
- 1.3 The Code of Practice requires each Authority to set out its strategy on treasury management for the forthcoming year. This report recommends a Treasury Management Policy Statement (TMPS) and treasury management practices to fulfil this requirement for the financial year commencing 1 April 2018.
- 1.4 The Annual Investment Strategy as set out in **Appendix 3** provides compliance with the investment guide issued by the Secretary of State. The guidance recommends the investment strategy is approved by the full Authority. In accordance with Financial Procedures, the Authority, via Policy & Resources Committee, will approve the AIS prior to the commencement of the financial year.

2. Policy Context.

- 2.1 There are no direct policy implications within this report.

3. Issues for consideration

Treasury Management Policy Statement 2018/19

- 3.1 The Code on Treasury Management published by CIPFA has been produced to satisfy a number of key purposes for treasury management including:
 - to assist in the development and maintenance of firm foundations and clear objectives;
 - to emphasise the overriding importance of effective risk management as the foundation;

- to encourage the pursuit of value for money;
 - to help facilitate the standardisation and codification of policies and practices.
- 3.2 The Treasury Management Policy Statement and practices set out in **Appendices 1 and 2** to this report comply with the requirements of the Code. All monies will be invested by the Authority's treasury team and investment income will be reported as part of quarterly monitoring.

Economic Background

- 3.3 As expected, the Monetary Policy Committee (MPC) implemented a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency rate cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% each time by 2020 to end at 1.00%.
- 3.4 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 stronger economic growth becomes more firmly established. The US Central Bank (The Federal Bank) has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies.
- 3.5 The Bank of England's Inflation reports during 2017 showed that the Monetary Policy Committee expected inflation to peak at 3.0% before falling back to the target of 2.0%. Inflation reached 3.1% in November 2017 before falling back to 3.0% in December 2017, which may suggest inflation has peaked as expected. A number of economists are forecasting inflation to fall in 2018 with one major impact on inflation being the effect of devaluation of sterling rolling out of the inflation indices.
- 3.6 It is likely that investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years. The Treasury Management Team will continue to seek value for money within the investment portfolio without compromising security of the authority's funds. This will be achieved with the regular review of cash flow forecasts to ensure the Authority maintains sufficient liquidity whilst continuing to take advantage of longer term investment rates with a strategy of rolling quarterly investment maturities.

Annual Investment Strategy 2018/19

- 3.7 The annual investment strategy sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key areas:
- a) capital security through investment in institutions with the highest credit rating, and;
 - b) liquidity by limiting the maximum period of investment.
- The 2018/19 Strategy remains unchanged to that agreed by the Authority for the current financial year.
- 3.8 The investment strategy is shown in **Appendix 3** and details the criteria used for selecting suitable counterparties for investing funds. The strategy recommends a maximum indicator risk of 0.05% that reflects the emphasis placed in the security of the Authority's investments. A risk factor of 0.00% cannot be achieved and the benchmark is a simple target that measures the risk based on the financial standing of counterparties and the length of each investment based on historic default rates.
- 3.9 It should be noted that should the Authority decide to borrow funds in the future, the Strategy will need to be updated to reflect the requirements to set borrowing limits and identify and approve the relevant prudential indicators. This could be actioned at the same time as considering any capital scheme that demonstrates affordability to repay the debt, however, no such schemes have yet been identified for 2018/19 and therefore this provision is not currently included in the Strategy.

- 3.10 The Authority's bank balance continues to be maintained at a maximum limit of £50,000. This process simply mitigates risk of exposure to the Authority's operational bank, but does not reflect an expectation of loss.
- 3.11 The Authority complies with the Code of Practice for Treasury Management in the Public Services in its undertaking of treasury management. CIPFA released a revised Code of Practice, and a revised Prudential Code in December 2017 for implementation for 2018/19. The TMPS (**Appendix 1**) and the Treasury Management Practices (**Appendix 2**) have been updated to reflect changes in these codes.
- 3.12 The revised Codes also now require local authorities to produce a Capital Strategy. This document is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability. This is to ensure that the overall strategy, governance procedures and risk appetite are fully understood by elected members.
- 3.13 CIPFA's Treasury & Capital Management Panel released a statement in December 2017 advising that authorities may implement their Capital Strategies in full for 2019/20 considering the lead in time that may be required. Additionally, the Department for Communities and Local Government have consulted with local authorities on proposed changes to the Investment Guidance and MRP Guidance. The consultation has closed but the outcome of the consultation has not yet been shared with local authorities. Proposed changes to these sets of guidance may have an impact on the content and presentation of the Authority's Capital Strategy. As a result, officers are expecting to present a Capital Strategy alongside the 2019/20 Budget Report.
- 3.14 The Financial Conduct Agency (FCA) implemented revised EU regulations known as MiFID II (Markets in Financial Instruments Directive) on 3 January 2018. Under previous regulations all Local Authorities in the UK were treated by investment counterparties as "Professional" clients which allowed all authorities to access a number of instruments (such as Certificates of Deposits, Treasury Bills and Money Market Funds) that "retail" clients, or individuals are not able to access. MiFID II automatically classifies local authorities as retail, with criteria outlined to allow authorities to "opt-up" to professional status. The Authority does not meet the minimum criteria of opting up as its investment portfolio balance is below the minimum of £10 million.
- 3.15 The Authority is therefore classified by investment counterparties as a retail investor. This does not currently impact on the Authority's investment activities as it is still permitted to invest in cash deposits with the same security with its current list of counterparties. The Authority remains able to access the benefit of other instruments and counterparties within the investment balance held with Brighton & Hove City Council.

4. Options & cost implications

- 4.1 The Treasury Management Policy Statement and Annual Investment Strategy recommended in this report seek to optimise return on the Authority's investments, subject to ensuring the security of the Authority's resources. The proposed budget for investment income for the 2018/19 financial year is £40,000, subject to approval from the Authority as part of the budget setting process.

5. Next steps

- 5.1 This report makes recommendations for Authority approval of the Treasury Management Policy Statement 2018/19, the Treasury Management Practices 2018/19 and Annual Investment Strategy 2018/19. The Authority will be asked to approve these documents at the March 2018 Authority meeting.
- 5.2 Quarterly update reports and an annual report after the close of the financial year, in the form prescribed in the TMPs will be submitted to the Policy & Resources Committee.

6. Other Implications

Implication	Yes*/No
Will further decisions be required by another committee/full authority?	Yes - This report makes recommendations for full Authority approval.
Does the proposal raise any Resource implications?	Yes – Policy & Resources Committee will be advised on a quarterly basis of the financial implications arising from the Treasury Management activity
How does the proposal represent Value for Money?	Yes - The Treasury Management Policy Statement and Annual Investment Strategy recommended in this report seek to optimise return on the Authority's investments, subject to ensuring the security of the Authority's resources.
Are there any Social Value implications arising from the proposal?	No
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	Yes – there are no implications arising directly from the report.
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	No
Are there any Data Protection implications?	No
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy?	The Authority's investments are undertaken in accordance with its ethical investment policy, which is unchanged from last year, as set out in Appendix 3 . There are no other sustainability implications arising from this report.

7. Risks Associated with the Proposed Decision

- 7.1 A risk assessment is contained within the treasury management practices set out in **Appendix 2** to this report.

NIGEL MANVELL

Chief Finance Officer

South Downs National Park Authority

Contact Officer: Steven Bedford, Principal Accountant

Tel: 01273 293047

email: steven.bedford@brighton-hove.gov.uk

Appendices 1. Treasury Management Policy Statement 2018/19

2. Treasury Management Practices 2018/19

3. Annual Investment Strategy 2018/19

SDNPA Consultees Chief Executive; Director of Countryside Policy and Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Business Service Manager

External Consultees None

Background Documents This report is presented in accordance with the Authority's Financial Regulations and Financial Procedures

South Downs National Park Authority

Treasury Management Policy Statement 2018/19

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2018:

- 1 The Authority defines its treasury management activities as:
“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.”
- 2 The Authority regards the successful identification, monitoring and management 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 Authority.
- 3 The Authority 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 best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

South Downs National Park Authority

Treasury Management Practices 2018/19

TMP1: Risk management

The Authority's Section 151 Officer will procure all arrangements for the identification and management of treasury management risk. The Section 151 Officer will report at least annually on the adequacy and suitability thereon and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect.

The arrangements procured by the Section 151 Officer will ensure:

- the Authority has adequate (though not excessive) cash resources, borrowing arrangements, overdraft and 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;
- the prudent use of approved financing and investment instruments, methods and techniques;
- a prudent attitude towards the organisations with which the Authority's funds may be deposited, including the limiting of investment activity to instruments, methods and techniques referred to in 'TMP4 Approved instruments, methods and techniques';
- all of the Authority's treasury management activity complies with its statutory powers and regulatory requirements;
- the use of systems and procedures that minimise the exposure to risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings.

TMP2: Best value and performance measurement

The Section 151 Officer will ensure the Authority is committed to the pursuit of best value in its treasury management activities.

TMP3: Decision-making and analysis

The Section 151 Officer will maintain full records of the Authority's 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.

TMP4: Approved instruments, methods and techniques

The Section 151 Officer will undertake the Authority's treasury management activity by employing only those instruments, methods and techniques suitable to meet the organisation's short to medium term needs.

TMP5: Organisation, clarity and segregation of responsibilities / dealing arrangements

The Section 151 Officer will ensure:

- there are clear written statements of the responsibilities for each post engaged in treasury management and arrangements for absence cover and business continuity;
- there is proper documentation for all deals and transactions, and;
- procedures exist for the effective transmission of funds.

TMP6: Reporting / management information arrangements

The Section 151 officer will prepare and present to the Authority:

- an annual report on the strategy and plan to be pursued in the coming year;
- quarterly reports on transactions undertaken, and;
- an annual report on the performance of the treasury management service.

TMP7: Budgeting, accounting and audit arrangements

The Section 151 Officer will account for the Authority's treasury management activity, 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.

TMP8: Cash / cash flow management

Unless statutory or regulatory requirements demand otherwise, all funds of the Authority will be under the control of the Section 151 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 Section 151 Officer will monitor that these are adequate for compliance with TMPI (Liquidity risk management).

TMP9: Money laundering

The Section 151 Officer will ensure the Authority introduces and maintains procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved are properly trained.

TMPI0: Staff training / qualifications

The Section 151 Officer will ensure that all staff involved in the treasury management service shall be fully equipped to undertake the duties and responsibilities allocated to them.

The Section 151 Officer will ensure Authority members tasked with treasury management responsibility have access to training relevant to their needs and responsibilities

TMPI1: Use of external service providers

The Authority recognises that the responsibility for treasury management decisions remain with the Authority at all times. It recognises that there may be potential value in employing external providers in order to acquire access to specialist skills and resources. Where it employs such services, it will ensure that the terms of such an appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review.

TMPI2: Corporate governance

The Authority is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the Section 151 Officer will ensure that the treasury management service and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Authority will adopt the key recommendations of the Code of Practice in Treasury Management.

South Downs National Park Authority

Annual Investment Strategy 2018/19

This Strategy complies with guidance to be issued by the Secretary of State on investments.

Criteria to be used for creating / managing approved counterparty lists / limits

The Authority will adopt the following minimum capital security requirements:

- Banks/building societies that have received Government support – the institution will be deemed to have the highest credit rating irrespective of the actual rating assigned to them. This is due to the inherent guarantee that Government support affords them.
- Banks/building societies with a credit rating – the institution must have a minimum short term rating of good short-term credit quality and a minimum long-term rating of good credit quality. “Good credit quality” is defined as institutions with credit ratings issued by the three main rating agencies as set out in Table 1.

Table 1 – Short-term credit ratings		
Rating agency	Min rating – short term	Min rating – long term
Fitch	F2	BBB
Moody's	P-2	Baa
Standard & Poors	A-2	BBB

The exposure limits and maximum investment periods of each approved counterparty will be established in accordance with the criteria set out in Table 2 below.

- Local authorities / Debt Management Office – deposits in local authorities are secured under legislation whilst deposits with the DMO are quasi-UK Government.
- Money market funds – the rating of the fund meets the minimum requirement of triple A (AAA/Aaa).

Table 2 sets out the maximum exposure limits and maximum periods for deposits based on a counterparty's credit rating.

Table 2 – Exposure limits and maximum periods per counterparty (with rating).			
	A rating of at least (lowest of Fitch (F) / Moody's (M) / Standard & Poor's (SP))		
Short-term rating	F = F1+ M = P-1 SP = A-1+	F = F1 M = P-1 SP = A-1	F = F2 M = P-2 SP = A-2
Long-term rating	F = AA- M = Aa3 SP = AA-	F = A M = A2 SP = A	F = BBB M = Baa SP = BBB
Exposure Limit	£10m	£5m	£5m
Maximum Investment period	12 months	12 months	6 months

Maximum permitted investment by counterparty / sector

The maximum amount invested in any one counterparty will be established in accordance with the criteria set out Table 2 above, based on each counterparty's credit rating.

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The maximum amount invested in any one sector will be 100%, with the exception of the building society sector where the maximum limit will be 75%.

Where practicable no one counterparty may have more than 75% of the relevant sector total at the time the investment is made.

Investment period

Investments will be made to match the cash flow requirements of the Authority. The maximum period of investment will be:

- for UK banks, building societies and local authorities – 12 months,
- for the Debt Management Acc Deposit Facility – 6 months
- for money market funds – investment will be made on a “call” basis (that is repayment can be made without notice) and/or a “notice” basis provided the notice period does not exceed one month.

Investment classification (regulatory)

The investment guidance issued by the Secretary of State requires the Authority to identify investments as either ‘specified’ or ‘non-specified’. Specified investments are short-term (i.e. up to 12 months), denominated in Sterling and made in institutions meeting the minimum rating criteria as set out in “Criteria to be used for creating / managing approved counterparty lists / limits” above.

All investments made by the Authority will meet these requirements and will therefore fall within the specified category.

Approved methodology for changing limits and adding / removing counterparties

A counterparty shall be removed from the Authority’s list where a change in their credit rating results in a failure to meet the minimum credit rating set out in “Criteria to be used for creating / managing approved counterparty lists / limits” above.

A counterparty’s exposure limit and investment period will be reviewed and (changed where necessary) in accordance with the criteria set out in Table 2 above following notification of a change in that counterparty’s credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty’s exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worth of a counterparty. The review may lead to the suspension of a counterparty where it is considered appropriate to do so by the Section 151 Officer.

Full individual listings of counterparties and counterparty limits

For 2018/19 investment will be restricted to UK banks and buildings societies that satisfy the criteria set out above. A full list of counterparties, together with counterparty limits, is set out in Table 3.

Table 3 – Schedule of Counterparties and Counterparty limits			
UK Banks		UK Building societies	
Barclays	£5m	Nationwide	£5m
HSBC Bank plc	£10m	Other:	
Lloyds Bank	£5m	Local authorities	See note *
Royal Bank of Scotland	£5m	Debt Management Acc Deposit Facility	£5m
Santander UK plc	£5m	Money market funds	£5m
* The amount invested in local authorities will be the amount available for investment less investment made in any other approved counterparty.			

Details of credit rating agencies' services

Credit ratings will be based on those issued periodically by the Fitch Ratings Group, Moody's and Standard & Poors.

Permitted types of investment instrument

All investments will be denominated in Sterling and in fixed term and/or variable term cash deposits, money market funds and open ended investment companies.

Investment risk

In addition to credit ratings, the Authority will apply additional operational market information before making any specific investment decision. This additional market information will be applied to compare the relative security of different investment counterparties.

The Authority is recommended to agree a benchmark risk factor for 2018/19 of 0.05%. The purpose of the benchmark is to monitor current and trend positions and amend the operational strategy depending on any changes.

Liquidity is achieved by limiting the maximum period for investment and by investing to dates where cash flow demands are known or forecast.

Ethical investment statement

South Downs National Park Authority, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. The Authority will actively seek to communicate this support to those institutions invested in as well as those it is considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply the Authority's deposits in a socially responsible manner.

Counterparties shall be advised of the above statement each and every time a deposit is placed with them.