Agenda Item 8
Report PR02/19

Report to	**Policy & Resources Committee**
Date	**28 February 2019**
By	**Chief Finance Officer / Head of Business Services**
Title of Report **Decision**	**Treasury Management Policy Statements and Annual Investment Strategy 2019/20**

Recommendation: The Committee is recommended to:

1. **Recommend that the Authority approves the Treasury Management Policy Statement 2019/20 and the Treasury Management Practices 2019/20 as set out in Appendices 1 and 2 to this report;**
2. **Recommend that the Authority approves the Annual Investment Strategy 2019/20, including the benchmark risk factor of 0.05%, as set out in Appendix 3 to this report**

1. Introduction

1.1 This report proposes 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 2019/20.

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 2019.

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 2019/20

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 Looking back since the financial crash of 2008, central banks' monetary policy measures (e.g. quantative easing) appear to have been reasonably successful. A period of reversing those measures is now starting e.g. by raising central interest rates and reducing government holdings and debt. The key risk is central banks getting their timing right and not causing market shocks or destabilisation. Corrections inevitably cause sharp falls in either bond markets or equities depending on the direction of the correction. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that is too slow and/or too weak. This is a key risk. For example, financial markets are concerned that the US Fed is being too aggressive with its policy for raising interest rates and may cause a recession in the US economy.

3.4 With so much uncertainty around Brexit, the Monetary Policy Committee (MPC) have warned that the next interest rate move could be up or down, even if there was a disorderly Brexit (e.g. due to inflationary pressures).

3.5 Consumer Price Index (CPIU) inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. Inflation was forecast to still be marginally above its 2% inflation target two years ahead, given a scenario of minimal increases in Bank Rate.

3.6 It is likely that investment returns will remain relatively low into 2019/20 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 2019/20

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 ratings, and;
b) liquidity by limiting the maximum period of investment.

The 2019/20 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 risk indicator of 0.05% that reflects the emphasis placed on the security of the Authority's investments. This risk indicator represents the probability, of capital loss within the authority's investment portfolio. 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. The risk factor is a way of setting a parameter and monitoring the ongoing security of the authority's portfolio but does not equate to an expected loss in the portfolio.

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 2019/20 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 limits the risk of exposure to the Authority's operational bank, but does not reflect an expectation of loss.

3.11 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.

3.12 The Prudential Code states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting of an authority's budget, and prescribes that ultimate responsibility for implementation lies with the Authority. As a result, officers will present a Capital Strategy alongside the 2019/20 Budget Report.

UK Banks Ring-fencing

3.13 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

3.14 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

3.15 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings (and any other metrics considered) will be considered for investment purposes. The list of approved counterparties in Appendix 3 differentiates the limits for both ring fenced and non-ring fenced banks.

Treasury Management Function

3.16 The Authority's treasury management and Section 151 function is provided through a service contract with Brighton & Hove City Council. The treasury function complies with all statutory powers and regulatory requirements and is carried out by staff with relevant training and qualifications to undertake the duties and responsibilities allocated to them.

3.17 The authority's day to day cash requirements are currently invested in Brighton & Hove City Council. This is considered the most cost effective way to run the service for the Authority, and has the added following benefits:

a) The Authority is able to have access to daily liquidity to manage day-to-day cash flow requirements;
b) By investing in Brighton & Hove City Council, the Authority benefits from enhanced rates as the average rate earned on the whole of the Brighton & Hove City Council's investment portfolio is payable to the Authority on its balances, including investments held on a longer term basis. The Authority, investing alone, would not be permitted to access the investment vehicles open to Brighton & Hove City Council.

3.18 This report is presented by both the Section 151 Chief Finance Officer and the Authority's Head of Business Services. The Head of Business Services is required to be a qualified account and is able, if necessary, to seek advice from other treasury specialists other than from 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 2019/20 financial year is £55,000, 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 2019/20, the Treasury Management Practices 2019/20 and Annual Investment Strategy 2019/20. The Authority will be asked to approve these documents at the March 2019 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	Yes – there are no implications arising directly from the report.

Equality Act 2010?	
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 2019/20 2. Treasury Management Practices 2019/20 3. Annual Investment Strategy 2019/20
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 2019/20

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2019:

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 2019/20

TMP1: Risk management

The Authority's Section 151 Officer will secure 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.

he arrangements secured 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 TMP1 (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.

TMP10: 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.

TMP11: 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.

TMP12: 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 2019/20

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.

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 2019/20 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		
Institution	**Lending Limit**	**Duration limit (months)**
UK Banks		
Lloyds Banking Group:		
Bank of Scotland PLC (RFB)	£5m	12
Lloyds Bank PLC (RFB)	£5m	12
Lloyds Bank Corporate Markets PLC	£5m	12
**Total max. exposure to Lloyds Banking Group	£5m	12
Barclays Banking Group:		
Barclays Bank PLC (NRFB)	£5m	12
Barclays Bank UK PLC (RFB)	£5m	12
**Total max. exposure to Barclays Banking Group:	£5m	12
RBS/Natwest Group:		
Natwest Markets PLC (NRFB)	£5m	6
National Westminster Bank PLC (RFB)	£5m	6
The Royal Bank of Scotland PLC	£5m	6
**Total max. exposure to RBS/Natwest Group:	£5m	6
HSBC Group:		
HSBC Bank PLC (NRFB)	£10m	12
HSBC UK Bank PLC (RFB)	£10m	12
**Total max. exposure to HSBC Group:	£10m	12
Santander UK PLC	£5m	12
UK Building Societies		
Nationwide	£5m	12
Other		
Local Authorities	*see note	
Debt Management Office Deposit Facility	£5m	12m
LVNAV Money Market Funds (per AAA rated fund)	£5m	n/a

* The amount invested in local authorities will be the amount available for investment less investment made in any other approved counterparty.

**Where there are multiple counterparties within a banking group, exposure to the overall group will be the largest limit,. But exposure to individual counterparties within the group will be based on the individual counterparty limit.

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 2019/20 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.