Appendix 4

Treasury Management Strategy Statement 2018-19

1 Introduction

1.1 South Cambridgeshire District Council has adopted the Code of Practice for Treasury Management in the Public Services, 2011 edition, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and complied with the Guidance issued by the Department for Communities and Local Government (DCLG) on behalf of the Secretary of State, **with the exception of the reporting requirements to full Council.**

1.2 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure,
- any increases in running costs from new capital projects,
- the loss of interest on balances or reserves arising from their use in financing the capital expenditure, are limited to a level which is affordable within the projected income of the council for the foreseeable future.

2 Defined Activities

2.1 Treasury Management is defined as the management of the council'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.

3 Policy

3.1 This council 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.

3.2 This council 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.

3.3 The council attaches a high priority to a stable and predictable revenue cost from treasury management activities. The council's objectives in relation to debt and investment can accordingly be stated as follows:

- To assist the achievement of the council's service objectives by obtaining funding and managing the debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a low risk to sums invested.

- This means the council takes a low risk position but is not totally risk averse. Treasury management staff have the capability to actively manage treasury risk within the scope of the council's treasury management policy and strategy.

- The following activities may be appropriate, depending on the circumstances at the time, to the extent that skills and resources are available:

    - The council will borrow at fixed or variable rate across a wide range of maturities, taking account of a liability benchmark which represents the lowest risk position,
    - Within limits, however, the council will seek to borrow more at maturities that it believes offer better value, and will consider early repayment and replacement of loans to rebalance portfolio risks as market conditions change
    - When investing surplus cash, the council will not limit itself to making deposits with the UK Government, but may invest in other bodies including high

investment grade financial institutions, or other organisations as set out in the investment policy.

- The council will seek to limit the risk of adverse interest rate changes on the budget, and will maintain a level of treasury skills, knowledge and access to information commensurate with managing risks at this level.

4 **Governance**

4.1 This council will create and maintain, as cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

- suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

4.2 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 council. Such amendments will not result in the council materially deviating from the code's key principles.

4.3 This council will receive reports on its treasury management policies (TMPs), practices and activities, including as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. The TMP is supplemented by a systems document covering treasury management procedures; the detail of how to apply practices for use by officers in their 'day to day' work on treasury management.

4.4 The prudential indicators including those relating to treasury management will be approved by council in February each year. The indicators for 2018-19 are set out in Appendix A to this statement.

4.5 This council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Finance and Staffing Portfolio Holder, and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4.6 This council nominates the Audit and Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4.7 Any decision to outsource all or part of the treasury management function will require the approval of the Cabinet.

5 **Borrowing strategy**

5.1 On 1st April 1996 the council became debt-free but under the Government scheme for Housing Revenue Account (HRA) Self-financing was required to take on debt of around £205 million on 28 March 2012. The council raised this money from the Public Works Loan Board in order to take advantage of the special (lower) rate available only to local authorities with debt under HRA Self-financing. The debt transactions were arranged on 26 March 2012 and effected on 28 March 2012.

5.2 The HRA Business Plan includes 41 maturity loans in tranches of £5 million each at fixed rates of interest with maturities every six months from March 2037 to March 2057 (25 to 45 years). This debt is regularly monitored with a view to rescheduling if advantageous for the HRA to do so.

5.3 Following HRA Self-financing the council has adopted a two pool approach whereby long term loans are split between the HRA and General Fund (GF), the principles to be applied are:

- Future charges to the HRA in relation to borrowing are not influenced by GF decisions, giving a greater degree of independence, certainty and control
- Un-invested balance sheet resources which allow borrowing to be below the capital financing requirement (CFR) are properly identified between GF and HRA

5.4 Credit arrangements are forms of credit which do not involve the borrowing of money and are defined by Section 7 Local Government Act 2003. The Chief Financial Officer shall only commit the council to credit arrangements which have been approved either specifically or as part of the financing of the capital programme by the cabinet and/or council.

5.5 Where the planned capital programme indicates a borrowing need, other than for short term borrowing, and where investment interest rates are forecast to be below borrowing rates for the year internal borrowing will be considered; or where appropriate longer term external borrowing with the following approved organisations:

- Public Works Loans Board
- Local Capital Finance Company, and
- UK Local Authorities (excluding Parish Councils)

6 Minimum Revenue Provision (MRP) policy statement

6.1 MRP is the revenue charge that the council is required to make for the repayment of debt, as measured by the underlying need to borrow, rather than actual debt. The underlying debt is needed to finance capital expenditure which has not been fully financed by revenue or capital resources. As capital expenditure is generally expenditure on assets that have a life expectancy of over one year it is prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure.

6.2 The Local Authorities (Capital Finance and Accounting)regulations require local authorities to calculate for the financial year an amount of MRP which is considered to be 'prudent'.

6.3 There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year. Furthermore, the HRA share of the CFR is not subject to an MRP charge. There is also no requirement to make an MRP charge on an asset until the financial year after that asset becomes operational.

6.4 The government has issued draft revised guidance (expected to be finalised in the new year) on the calculation of MRP. The council is required to have regard to the guidance based on the underlying principle that the provision should br linked to the life of the assets for which the borrowing is required. However, the guidance is clear that differing approaches can be considered as long as the resulting provision is prudent.

6.5 In general, the council will make MRP based on the equal instalment method, amortising expenditure equally over the estimated useful life of the asset for which the borrowing is required. However, no provision will be made where the chief Financial Officer determines that receipts will be generated by the project to repay the debt.

6.6 Where a loan is made to a wholly owned subsidiary of the council, the loan is deemed to be secured on the assets of the company. Evidence of the ability to repay the loan will be based on the company's business plan and asset valuation, and no minimum revenue provision will be made. The Council will review the loan and business plan annually, where there is evidence which suggests the full amount of the loan will not be repaid it will be necessary to reassess the charge to recover the impaired amounts from revenue.

6.7 Exceptionally, where capital expenditure is part of a loan agreement to other than a wholly owned subsidiary, the Council may register a fixed and floating charge over the counterparty assets to secure the Council interest in the investment, or alternately an equity share interest in an asset with value.

7 **Investment strategy**

7.1 The Chief Financial Officer will formulate:

- a borrowing and investment strategy before the start of the financial year to be approved by Executive and Council;
- a borrowing and investing plan in March of each year for the next five years which will incorporate the expenditure and income in the capital programme and capital and revenue financing decisions approved by the Council; and
- short-term borrowing/investing plans at the beginning of each week for the current week.

7.2 Investments will only be in non negotiable fixed time, callable and on call deposits to the following approved organisations and within the following limits:

Groups of organisations	Maximum investment limit to any one organisation within a group (£ million)	Maximum proportion which may be held by each group at any time during the financial year
The Treasury (the UK Debt Management Office's Debt Management Account)	unlimited	100%
Money Market Funds subject to the highest possible credit rating.	10.0	30%
UK Local Authorities (excluding Parish Councils) and LGA Municipal Bond Agency	10.0	75%
UK Banks (which are also retail)	10.0	60%
South Cambs Housing Ltd	45.0	60%
Subsidiaries of UK Banks (provided the subsidiaries are UK-incorporated deposit takers under the Financial Services and Markets Act 2000 and provided loans are for a maximum period of three months)	3.0	10%
Other Banks, Property Funds and Financial Institutions specifically approved by the Finance and Staffing Portfolio Holder (or formerly by Cabinet or Finance, Resources and Staffing Committee)	5.0	20%
Registered Housing Associations, subject to credit rating	5.0	20%
Building Societies:		
with assets greater than £10,000 million	10.0	
with assets between £10,000 million and £5,000 million	5.0	
with assets between £1,500 million and £5,000 million	3.0	100%

7.3 Investment may be made in share capital, as non-specified investments, to the following approved organisations:-

- The Local Capital Finance Company (Municipal Bond Agency),
- South Cambs Limited (trading as Ermine Street Housing),
- the CCLA Local Authorities Property Fund, and

- other organisations specifically approved by Cabinet.

7.4 Total combined investments and loans to South Cambs Limited, a wholly owned subsidiary of the council, will be subject to a maximum value of £107 million; the council borrowing in accordance with paragraph 5.6, to on-lend to the company for periods of five years or greater.

8 Investment security

8.1 The Chief Financial Officer shall review at least annually the list of approved organisations and make appropriate amendments to individual organisations on the list, but not to the principles on which it is compiled without the approval of the cabinet.

8.2 The guidance determines specified investments as investments denominated in sterling, for less than twelve months, not in share or loan capital and with a high credit quality or with the government or local authorities. Non-specified investments may have greater potential risk and are any investments which are not specified. The groups of organisations set out above are restricted in order to give priority to security and will be used for both specified (less than twelve months) and non-specified investments (twelve months or more).

9 Credit risk assessment

9.1 The criteria for high credit quality will apply (except to public sector bodies) to both specified and non-specified investments and will apply to organisations as set out in paragraph 7.2 with a credit rating as set out in Appendix B to this statement and a bank financial strength rating greater than D+. The credit rating and bank financial strength rating of all approved organisations will be checked on a weekly basis and of a specific approved organisation immediately before an investment is made with that organisation. Ratings watch (heightened probability of rating change in the short term) and ratings outlook (credit rating may change in the next one to two years) will also be taken in to account.

10 Investment consultants

10.1 External contractors offering information, advice and/or assistance are currently not used by the Council, benchmarking of treasury management performance against other organisations is used instead. However, the use of consultants will be considered in the coming year.

11 Investment training

11.1 The needs of the council's treasury management staff for training in investment management are reviewed as part of the annual performance and development review scheme and are addressed by attendance at seminars (usually the CIPFA Local Government Treasury Management Conference with periodic attendance at seminars offered by external organisations) and by keeping up to date with codes of practice and guidance issued by CIPFA and DCLG and information in the quality financial press.

12 Investment of money borrowed in advance of need

12.1 The Chief Financial Officer may undertake short term borrowing where it is associated with specific investments for longer periods and, thereby, take advantage of interest rate differentials or may undertake long term borrowing, with the approval of Finance and Staffing Portfolio Holder, where there is a clear link to the capital programme which supports the need for future borrowing.

13 Loans to approved organisations

13.1 Loans to organisations shall be on a secured basis funded from internal resources or from prudential borrowing following asset security, organisation and loan project appraisal, with the approval of the Chief Finance Officer and Finance and Staffing Portfolio Holder.

14 Investments - delegation and reporting

14.1 Delegation may be summarised as:

- to the Chief Financial Officer and/or Head of Finance, Policy and Performance:
  - temporary borrowing/investing for up to 364 days
  - investments up to five years
  - capital financing
  - credit arrangements;

- to the Chief Financial Officer and Finance and Portfolio Holder:
    - long term borrowing
    - loans to approved organisations

- to the cabinet:
    - external management / use of external consultants; and

- to the council:
    - approval and any revisions to the annual investment strategy

14.2 The Chief Financial Officer will only have delegated authority to deal in investments which are denominated in sterling and any payments or repayments in respect of the investments are to be payable only in sterling.

14.3 The Chief Financial Officer shall present to:

- the Finance and Staffing Portfolio Holder quarterly updates on treasury management activity; and

- Audit and Corporate Governance Committee an annual report on the activities of the Treasury Management operation and on the exercise of Treasury Management powers delegated to them at the earliest practicable opportunity after the end of the financial year but in any case by the end of September.

Appendix A - Prudential and treasury indicators

Prudential and treasury indicators

Capital expenditure

Capital expenditure	2016-17 Actual £m	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
General Fund	3.190	5.959	21.627	17.720	22.581
Housing Revenue Account[1]	14.739	18.550	22.873	19.801	16.768
Total capital expenditure	**17.929**	**24.509**	**44.500**	**37.521**	**39.349**
Resourced by:					
Capital receipts	**-3.698**	**-7.340**	**-8.594**	**-7.815**	**-4.875**
Other contributions	**-14.221**	**-17.169**	**-35.906**	**-29.706**	**-34.474**
Total available resources for financing capital expenditure	**-17.919**	**-24.509**	**-44.500**	**-37.521**	**-39.349**
Financed from cash balances	**-0.01**	**0**	**0**	**0**	**0**

[1] – HRA capital expenditure excludes the contribution to corporate ICT and therefore differs from totals in the HRA BSR.

Capital Financing Requirement (CFR) and external debt

The capital financing requirement is capital expenditure which has not been fully financed from a local authority's own resources in the year but has been covered by raising external or internal debt.

CFR and cumulative external borrowing	31/03/2017 Actual £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m	31/03/2021 Estimate £m
General Fund	20.938	43.410	56.338	68.387	79.952
Housing Revenue Account	204.429	204.429	204.429	204.429	204.429
Total CFR	**225.367**	**247.838**	**260.766**	**272.816**	**284.380**
Movement in CFR		**22.471**	**12.928**	**12.049**	**11.565**
External gross debt/borrowing (including HRA)					
Authorised limit for external debt	**205.1**	**205.1**	**222.0**	**237.0**	**252.0**

Operational boundary for external debt	205.1	205.1	222.0	237.0	252.0

The **GF CFR** fluctuates due to the internal financing of refuse vehicles, part of the purchase of wheeled bins and cash overdrawn on equity share repurchases, but this financing is then partly repaid over the period. The increase in capital financing requirement during 2018/19 being due to external borrowing for on-lending to South Cambs Limited, a wholly owned subsidiary of the Council, with further borrowing phased over the period to 2020-21.

HRA self-financing required the Council to take on **external debt** of £205.123 million at the end of 2011-12; the Council obtained 41 individual loans with maturity dates between 2037 and 2057. GF external debt of £42.0 million relates to external borrowing for on-lending to South Cambs Limited with borrowing phased over the period to 2020-21.

The **authorised limit** is the maximum limit consisting of HRA debt of £205.1 million and General Fund £17.0 million (2018-19) to take advantage of interest rate differentials and to meet immediate cash flow requirements and external debt. The authorised limit is the statutory affordable borrowing limit under Section 3 (1) Local Government Act 2003.

The **operational boundary** for external debt is based on the same estimates as the authorised limit but reflects the most likely scenario and is expected to be £222.0 million for both borrowing and other long term liabilities increasing to £252.0 million in 2020-21.

Affordability (financing costs / net revenue stream)	**2016-17 Actual £ million**	**2017-18 Estimate £ million**	**2018-19 Estimate £ million**	**2019-20 Estimate £ million**	**2020-21 Estimate £ million**
General Fund	-2%	-3%	-4%	-3%	-3%
Housing Revenue Account	24%	22%	22%	23%	22%
Incremental impact of capital investment decisions	**2016-17 Actual p**	**2017-18 Estimate p**	**2018-19 Estimate p**	**2019-20 Estimate p**	**2020-21 Estimate p**
Band D council tax (District council element)	1.48	39.43	-37.66	-9.49	0.00

The other affordability indicator is the incremental impact of capital investment decisions on the council tax and on the average weekly housing rents. The latter is considered to be not applicable as the increase/decrease in housing rents is based on government guidance and not on the amount of HRA capital expenditure.

Maturity structure of borrowing	Under 12 Months	More than 12 months
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	100%	0%
The council will undertake long term borrowing to on-lend and a minimal amount of short-term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements. HRA debt is at fixed rates.		

Investments

Liquidity of investments Investment period	Longer than 364 days but less than two years £ million	Longer than one year and 364 days but less than three years £ million	Longer than two years and 364 days but less than four years £ million	Longer than three years and 364 days but less than five years £ million
Maximum Limit	10.0	8.0	8.0	15.0
No investments will be made for more than five years				

Interest rate exposure - Upper limit on gross investments	2018/19	2019/20	2020/21
Fixed Rate	100%	100%	100%
Variable rate	50%	50%	50%
The council will only undertake a minimal amount of short-term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements; the upper limits for interest rate exposures are based on gross investments.			

Appendix B

Long and short term credit ratings

	Grading (for the purpose of standardisation)	Fitch Long Term	Fitch Short Term less than or equal to one year	Moody's Long Term	Moody's Short Term less than or equal to one year	Standard & Poor's Long Term	Standard & Poor's Short Term less than or equal to one year	
Investment Grade	Extremely strong Grade	AAA	F1+	Aaa	P-1	AAA	A-1+	SCDC Investment Criteria
Investment Grade	Very Strong Grade	AA+	F1+	Aa1	P-1	AA+	A-1+	SCDC Investment Criteria
Investment Grade	Very Strong Grade	AA	F1+	Aa2	P-1	AA	A-1+	SCDC Investment Criteria
Investment Grade	Very Strong Grade	AA-	F1+	Aa3	P-1	AA-	A-1+	SCDC Investment Criteria
Investment Grade	Strong, but susceptible to adverse conditions grade (strong grade)	A+	F1+ F1	A1	P-1	A+	A-1+ A-1	SCDC Investment Criteria
Investment Grade	Strong, but susceptible to adverse conditions grade (strong grade)	A	F1	A2	P-1 P-2	A	A-1+	SCDC Investment Criteria
Investment Grade	Strong, but susceptible to adverse conditions grade (strong grade)	A-	F1 F2	A3	P-1 P-2	A-	A-1+ A-2	SCDC Investment Criteria
Investment Grade	Adequate grade	BBB+	F2	Baa1	P-2	BBB+	A-2	
Investment Grade	Adequate grade	BBB	F2 F3	Baa2	P-2 P-3	BBB	A-2 A-3	
Investment Grade	Adequate grade	BBB-	F3	Baa3	P-3	BBB-	A-3	
Sub-investing Grade	Speculative grade	BB+	B	Ba1	Not Prime (NP)	BB+	B-1	
Sub-investing Grade	Speculative grade	BB	B	Ba2	NP	BB	B-2	
Sub-investing Grade	Speculative grade	BB-	B	Ba3	NP	BB-	B-3	
Sub-investing Grade	Very speculative grade	B+	B	B1	NP	B+	-	
Sub-investing Grade	Very speculative grade	B	B	B2	NP	B	-	
Sub-investing Grade	Very speculative grade	B-	B	B3	NP	B-	-	
Sub-investing Grade	Vulnerable grade	CCC	C	Caa1	NP	CCC+	C	
Sub-investing Grade	Vulnerable grade	CCC	C	Caa2	NP	CCC	C	
Sub-investing Grade	Vulnerable grade	CCC	C	Caa3	NP	CCC-	C	
Sub-investing Grade	Vulnerable grade	CC	C	-	NP	CC	C	
Sub-investing Grade	Vulnerable grade	C	C	Ca	NP	C	C	
Sub-investing Grade	Defaulting grade	D	D	C	NP	D	D	