APPENDIX D1

BORROWING AND INVESTMENT STRATEGY 2016-2017

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:

a) increases in interest charges caused by increased borrowing to finance additional capital expenditure,

b) any increases in running costs from new capital projects, or

c) 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:

a) 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.

b) 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.

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

   (i) 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

   (ii) 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

   (iii) 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.

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

(b) 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.

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.

4.2 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.

4.3 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.

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

5. **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). Any Public Works Loan Board debt has to be held for at least one year before it can be prematurely repaid and, therefore, a strategy for monitoring debt with a view to debt rescheduling will be incorporated in future investment strategies.

5.3 Following HRA Self-financing the Council has adopted a two pool approach whereby long term loans are split between the Housing Revenue Account and General Fund, the principles to be applied are:

(a) Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control

(b) Un-invested balance sheet resources which allow borrowing to be below the capital financing requirement (CFR) are properly identified between General Fund and HRA

5.4 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.

5.5 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.

5.6 The Council's policy on the minimum revenue provision, being a provision for debt repayment to be set aside each year regardless of when debt repayment is actually made, will be either the asset life method calculated by dividing the cost of an asset by its estimated useful life, or an agreed percentage. 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 and, supported by the business plan, evidence of the ability to repay the loan, in which case 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. 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. The impact on HRA Self-financing is excluded from the calculation of the minimum revenue provision under statutory guidance issued by the Department of Communities and Local Government.

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

6. Operations and Prudential Indicators

6.1 The Chief Financial Officer will formulate:

(a) a borrowing and investment strategy before the start of the financial year to be approved by Executive and Council;

(b) 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

(c) short-term borrowing/investing plans at the beginning of each week for the current week.

6.2 The prudential indicators including those relating to treasury management are being approved by Council in February 2016 as part of the Medium Term Financial Strategy.

6.3 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)

6.4 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	20.0	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:		100%
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	

6.5 Investment 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)
- CCLA Local Authorities Property Fund

or other organisations specifically approved by Cabinet.

7. Investment Security

7.1 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.

7.2 The guidance (paragraph 1) 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 authority. 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).

8. Credit risk assessment

8.1 The criteria for high credit quality will apply (except to public sector bodies) to both specified (less than twelve months) and non-specified investments (twelve months or more) and will apply to organisations as set out in paragraph 6.4 with a credit rating as set out in ***Annex 1*** 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.

9. Investment Consultants

9.1 External contractors offering information, advice and/or assistance are currently not used by the Council as treasury management performance is benchmarked against other organisations and a consistently good performance has been achieved for several years.

10. Investment Training

10.1 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.

11. Investment of money borrowed in advance of need

11.1 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.

12. Loans to approved organisations

12.1 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.

13. Delegation and Reporting

13.1 Delegation may be summarised as:

a) to the Chief Financial Officer and/or Head of Finance, Policy and Performance:
   (i) temporary borrowing/investing for up to 364 days
   (ii) investments up to five years
   (iv) capital financing
   (v) credit arrangements;

b) to the Chief Financial Officer and Finance and Portfolio Holder:
   (i) long term borrowing
   (ii) loans to approved organisations

c) to the Cabinet:
   (i) external management / use of external consultants; and

d) to the Council:
   (i) approval and any revisions to the annual investment strategy

12.2 The Chief Financial Officer shall present to:

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

b) 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.

To be approved by Council
25 February 2016

ANNEX 1

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
	Very Strong Grade	AA+	F1+	Aa1	P-1	AA+	A-1+	
		AA	F1+	Aa2	P-1	AA	A-1+	
		AA-	F1+	Aa3	P-1	AA-	A-1+	
	Strong, but susceptible to adverse conditions grade (strong grade)	A+	F1+ F1	A1	P-1	A+	A-1+ A-1	
		A	F1	A2	P-1 P-2	A	A-1+	
		A-	F1 F2	A3	P-1 P-2	A-	A-1+ A-2	
	Adequate grade	BBB+	F2	Baa1	P-2	BBB+	A-2	
		BBB	F2 F3	Baa2	P-2 P-3	BBB	A-2 A-3	
		BBB-	F3	Baa3	P-3	BBB-	A-3	
Sub-investing Grade	Speculative grade	BB+	B	Ba1	Not Prime (NP)	BB+	B-1	
		BB	B	Ba2	NP	BB	B-2	
		BB-	B	Ba3	NP	BB-	B-3	
	Very speculative grade	B+	B	B1	NP	B+	-	
		B	B	B2	NP	B	-	
		B-	B	B3	NP	B-	-	
	Vulnerable grade	CCC	C	Caa1	NP	CCC+	C	
		CCC	C	Caa2	NP	CCC	C	
		CCC	C	Caa3	NP	CCC-	C	
		CC	C	-	NP	CC	C	
		C	C	Ca	NP	C	C	
	Defaulting grade	D	D	C	NP	D	D	