

Report to	Policy & Programme Committee
Date	26 January 2017
By	Chief Finance Officer
Title of Report	Treasury Management Policy Statement and Annual Investment Strategy 2017/18

Recommendation: The Committee recommends the Authority to approve:

- 1) The Treasury Management Policy Statement 2017/18 and the Treasury Management Practices 2017/18 as set out in Appendices 1 and 2 to this report;**
- 2) The Annual Investment Strategy 2017/18, including the benchmark risk factor of 0.05%, as set out in Appendix 3 to this report**

1. Summary and Background

- 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 2017/18.
- 1.2 Part I 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 practice to fulfil this requirement for the financial year commencing 1 April 2017.
- 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.

2. Treasury Management Policy Statement 2017/18

- 2.1 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.
- 2.2 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.

3. Economic Background

- 3.1 The referendum result to leave the EU in June 2016 brought about an immediate fall in confidence reflected in indicators and business surveys at the beginning of August. This was interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. The Monetary Policy Committee responded to this expectation of a downturn with a stimulus package which included the reduction of the Base Rate down to 0.25%. However, surveys subsequently showed that consumer confidence bounced back and GDP in quarter 3 2016 showed a modest growth. Therefore immediate economic slowdown expected following the referendum outcome did not materialise.
- 3.2 The latest Monetary Policy Committee decision included a forward view that the Bank Rate could go up or down depending on how economic data evolves in the coming months. There are many uncertainties which could affect the performance of the UK economy, including the terms negotiated for the UK's departure from the EU, and the impact of a revision to US economic policy.
- 3.3 It is likely that the Base Rate will remain suppressed in the medium term, and at least for the duration of 2017/18. It is expected that this will impact on the investment income achievable by the authority in 2017/18. However, the Treasury Management Team will continue to seek value for money within the investment portfolio without compromising security of the authority's funds in order to minimise the impact of interest rate reductions.

4. Annual Investment Strategy 2017/18

- 4.1 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:
- capital security through investment in institutions with the highest credit rating, and;
 - liquidity by limiting the maximum period of investment.
- The 2017/18 Strategy remains unchanged to that agreed by the Authority for the current financial year.
- 4.2 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.
- 4.3 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 2017/18 and therefore this provision is not currently included in the Strategy.
- 4.4 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.
- 4.5 The Authority are also advised that the Financial Conduct Authority (FCA) recently consulted UK local authorities on the implications of changes to the financial instruments regulations in the EU known as MiFiD (Markets in Financial Instruments Directive). In summary, the proposed directive would, for the purposes of undertaking investment activity, define UK local authorities by default as 'retail' investors (i.e. similar to individuals) and that they would therefore have to 'opt-up' to classify as 'professional' investors enabling them to carry out corporate investment activities beyond simple bank and building society deposits. The proposal for allowing opt-up is to set a minimum requirement of:
- £15m of investment/cash balances;
 - 1 year of professional experience in transacting similar financial instruments.
- 4.6 If implemented, this may pose some investment barriers to the SDNPA, in that the average

investment balance is well below the £15m minimum and therefore the authority would be classified as a retail investor only. This would limit the type and length of investments and counterparties that could be utilised and may impact on the investment yields available to the Authority.

- 4.7 The consultation was issued last year in 3 stages with responses to the latest proposals being sought by 4 January 2017. The Local Government Association (LGA) has responded on behalf of local authorities indicating that not only should the UK make its own determinations but that it is 'strongly of the view that [all] local authorities should be regarded as professional' [investors].
- 4.8 The Authority's treasury team has also responded in support of the LGA view and to suggest that, if the proposal is to be upheld, authorities with investment portfolios below £15m can still achieve 'professional' investor status by outsourcing the management of their investments to another authority or other external provider that does have professional investor status. This would therefore apply to the authority's current arrangements.
- 4.9 The new regulations are expected to be take effect in January 2018. Until the outcome of this consultation is known, including any implementation timetable, the Authority's investment income forecast and budget 2017/18 continue to be based on current arrangements as set out in the Annual Investment Strategy.

5. Governance Committee/P&P Committee /NPA Considerations

- 5.1 The full Authority is responsible for approving the Treasury Management Policy Statement. It is the role of Policy & Programme Committee to recommend to the Authority the treasury management policy.
- 5.2 The Authority via Policy & Programme Committee will approve the Annual Investment Strategy prior to the commencement of the year, and any subsequent changes or revisions.
- 5.3 Quarterly update reports and an annual report after the year close will be submitted to the Governance 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 - Governance 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
Has due regard has been taken of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	No
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the	No

proposal?	
Are there any Health & Safety implications arising from the proposal?	No
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy: 1. Living within environmental limits 2. Ensuring a strong healthy and just society 3. Achieving a sustainable economy 4. Promoting good governance 5. Using sound science responsibly	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 . For information, this policy is the same as adopted and operated by Brighton & Hove City Council. There are no other sustainability implications arising from this report.

7. Risks Associated with the Proposed Decision

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

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Appendices	<ol style="list-style-type: none"> 1. Treasury Management Policy Statement 2017/18 2. Treasury Management Practices 2017/18 3. Annual Investment Strategy 2017/18
SDNPA Consultees	Chief Executive; Director of Countryside Policy and Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Business Services 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 2017/18**

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2017:

- 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 2017/18**

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

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.

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.

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.

TMPI1: Use of external service providers

The Authority will procure and appoint the services of a suitably qualified external organisation to provide the treasury management service. The Section 151 Officer shall 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 2017/18**

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 2017/18 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.

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 2017/18 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.