

| | | | | |
|---|---|---|--|------------------------------------|
| Open | Would any decisions proposed : | | | |
| Any especially affected Wards | (a) Be entirely within Audit Committee's powers to decide NO | | | |
| None | (b) Need to be recommendations to Council/Cabinet Yes | | | |
| | (c) Be partly for recommendations to Council NO and partly within Cabinets powers – | | | |
| Lead Member: Brian Long, E-mail: | | Other Cabinet Members consulted: None | | |
| | | Other Members consulted: None | | |
| Lead Officer: Toby Cowper E-mail: toby.cowper@west-norfolk.gov.uk Direct Dial: 01553 616523 | | Other Officers consulted: Lorraine Gore, Management Team | | |
| | | | | |
| Financial Implications YES | Policy/Personnel Implications NO | Statutory Implications (incl S.17) YES | Equal Opportunities Implications NO | Risk Management Implications NO |

Date of meeting: 21 August 2018

AMENDMENTS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT STRATEGY 2018/2019

Summary

Before the start of the financial year Council is required to receive and approve a Treasury Management Strategy Statement, including an Investment Strategy.

This report covers the suggested amendments to the 'Annual Investment Strategy 2018/2019'. The suggested amendments to the strategy are to allow the Council to make available loan facilities to West Norfolk Housing Company LTD (WNHC). WNHC is a wholly owned local authority company and is in the process of becoming a registered provider of social housing. WNHC is 100% owned by the Borough Council of King's Lynn and West Norfolk.

Recommendations

Cabinet is asked to recommend to Council:

- 1 The amendments to 'The Investment Strategy 2018/2019.' as detailed in the report.**

Summary

Before the start of the financial year Council is required to receive and approve a Treasury Management Strategy Statement, including an Investment Strategy.

This report covers the suggested amendments to the 'Annual Investment Strategy 2018/2019'. The suggested amendments to the strategy are to allow the Council to make available loan facilities to West Norfolk Housing Company LTD (WNHC).

West Norfolk Housing Company LTD is a wholly owned local authority company, a not for profit company and is in the process of becoming a registered provider of social housing.

West Norfolk Housing Company Ltd is 100% owned by the Borough Council of King's Lynn and West Norfolk.

This amendment to the strategy would also allow for loan facilities to be made available to other local authority companies owned by the Borough Council of King's Lynn and West Norfolk.

The Annual Investment Strategy 2018/2019 is included below with amendments highlighted with **blue text**.

Loan Proposal

It is proposed that the Council will loan West Norfolk Housing Company Ltd £10m, at a commercial interest rate, for a period of 40 years.

This loan will be secured against housing assets that West Norfolk Housing Limited will acquire with the loan.

State aid

Officers have taken external advice concerning the state aid issues relating to a Local Authority loaning money to a limited company.

The external advice was that:

Grants or funding allocated to services of general economic interest (SGEI) are not state aid. The European Court (EC) has determined that social housing is an SGEI

Amendments to the Annual Investment Strategy 2018 / 2019

(Highlighted with blue text)

a. Investment policy

The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be **security** first, portfolio **liquidity** second, then **return**.

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties, which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing, such as "credit default swaps", and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 2 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

b. Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit default swap spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

| | |
|-------------------|---|
| Yellow | 5 years |
| Dark pink | 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5 |
| Light pink | 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5 |
| Purple | 2 years |
| Blue | 1 year (only applies to nationalised or semi nationalised UK Banks) |
| Orange | 1 year |
| Red | 6 months |
| Green | 100 days |
| No colour | not to be used |

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website,

provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

| | | | | | | | | |
|------------|------------|------------|------------|-----------|-----------|-------------|---------------|-----------|
| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

| Counterparties | Colour (and long term rating where applicable) | Money per institution Limit | Time Limit |
|--|--|-----------------------------|------------|
| Banks /Building Societies | yellow | £2m | 5yrs |
| Banks / Building Societies | purple | £4m | 2 yrs |
| Banks / Building Societies | orange | £4m | 1 yr |
| Banks – UK part nationalised | blue | £4m | 1yr |
| Banks / Building Societies | red | £4m | 6 mths |
| Banks / Building Societies | green | £4m | 100 days |
| Banks / Building Societies | No colour | Not to be used | |
| DMADF (Debt Management Account Deposit Facility) | UK sovereign rating | Unlimited | 6 months |
| Local authorities | yellow | 10m | Unlimited |
| Local Authorities Companies which are 100% owned by the Borough Council King's Lynn and West Norfolk | N/A | 12M | Unlimited |
| | Fund rating | Money and/or % Limit | Time Limit |
| Money Market Funds CNAV | AAA | £4m | liquid |
| Money Market Funds LVNAV | AAA | £4m | liquid |
| Money Market Funds VNAV | AAA | £4m | liquid |
| Ultra-Short Dated Bond Funds with a credit score of 1.25 | Dark pink / AAA | £3m | liquid |
| Ultra-Short Dated Bond Funds with a credit score of 1.50 | Light pink / AAA | £3m | liquid |

Diversification Policy:

- a. This Borough Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

Maximum investment per institution £4m

Other Local Authorities £10m

Amendment to Policy

Local Authorities Companies which are 100% owned by the Borough Council King's Lynn and West Norfolk - £12m per company.

- b. Group limit, where a number of institutions are under one ownership – Investments for the whole group will not exceed the limit above **except where the companies are owned by the Borough Council King's Lynn and West Norfolk.**

Country limits

- a. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at 15 Jan 2018 is below.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- France
- UK

AA-

- Belgium

- b. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment strategy

a. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

b. **Investment returns expectations.**

Bank Rate is forecast to stay flat at 0.50% until quarter 4 of 2018 and not to rise above 1.25% by quarter 1 of 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

c. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

| | Now |
|-------------|------------|
| 2017/18 | 0.40% |
| 2018/19 | 0.60% |
| 2019/20 | 0.90% |
| 2020/21 | 1.25% |
| 2021/22 | 1.50% |
| 2022/23 | 1.75% |
| 2023/24 | 2.00% |
| Later years | 2.75% |

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

d. These rates are reflected in the Financial Plan 2018/2022 approved at Council on the 22 February 2018

Investment treasury indicator and limit

- a. Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

| Maximum principal sums invested > 365 days | | | | |
|--|------------------|------------------|------------------|------------------|
| | 2018/2019 | 2019/2020 | 2020/2021 | 2021/2022 |
| Principal sums invested > 364 days | £4m | £4m | £4m | £4m |
| With Local Authorities | £10m | £10m | £10m | £10m |

Amendment to Policy

| Maximum principal sums invested > 365 days | | | | |
|--|------------------|------------------|------------------|------------------|
| | 2018/2019 | 2019/2020 | 2020/2021 | 2021/2022 |
| Principal sums invested > 364 days | £4m | £4m | £4m | £4m |
| With Local Authorities | £10m | £10m | £10m | £10m |
| With Local Authorities Companies which are 100% owned by the Borough Council King's Lynn and West Norfolk | £12m | £12m | £12m | £12m |

Amendment Appendices

1. Specified and Non-Specified Investments

Appendix 1

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of 50% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Amendment to Policy – New Non-Specified Investments line added

| Non Specified Investments (can be longer than 1 year) | Minimum Credit Criteria | Use | Max % of total investments | Max. maturity period |
|---|-------------------------|----------|----------------------------|----------------------|
| With Local Authorities Companies which are 100% owned by the Borough Council King's Lynn and West Norfolk | N/A | In-house | 100% | Unlimited |

Financial Implications

- a. The financial implications of the borrowing and investment strategy and MRP are reflected in the financing adjustment figure included in the Financial Plan 2018/2022 approved at Council on 22 February 2018.
- b. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Policy Implications

There are no other changes in the Treasury Management policy at present, other than those outlined in this report.

Access to information

Monthly Monitoring reports 2017/2018 and 2018/2019
The Financial Plan 2018/2022 – A Financial Plan
Capital Programme 2018/2022
Council Website – Treasury Management Practices
Capital and Local Property Investment Fund Strategy 2017/2021