

Treasury Management Strategy Statement 2015/2016, Annual Revenue Provision Policy Statement and Annual Investment Strategy

1 Background

- 1.1 The Local Government Act 2003 (the Act) and the framework established by CIPFA through its Prudential Code requires the Authority to set Prudential and Treasury Indicators for each of the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.
- 1.2 The Act also requires the Authority to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy that sets out the Authority's policies for managing its investments and the priority given to the security and liquidity of those investments.
- 1.3 The strategy for 2015/2016 covers:
- The current treasury position
 - Prospects for interest rates
 - Borrowing requirements and strategy
 - Annual Revenue Provision policy statement
 - The investment strategy
 - Debt rescheduling options; and treasury management and prudential indicators for the period 2014-15 to 2017-18
- 1.4 It is a statutory requirement under s33 of the Local Government Finance Act 1992 for the Authority to produce a balanced budget. In particular, s32 requires the Authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decision. This means that capital spending increases that lead to increases in revenue costs, whether from additional borrowing or running costs, must be limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

2 Current Treasury position

Borrowing

- 2.1 At the time of writing this report the Authority currently has outstanding external borrowing of £19.187M, which includes:

Outstanding debt at 6/2/2015	Principal £M	Average rate %
Public Works Loan Board (PWLB) debt	17.259	5.25
Market Debt	2.000	4.01
Total debt	19.259	5.12

- 2.2 The Market Debt in the table above is held in the form of a Lender Option Borrower Option (LOBO) loan where there are options on the part of the borrower (the Authority) and the lender at specified points in the loan's existence. The maturity profile of the Authority's borrowing (both PWLB and market loans) is shown below:

Loan source	Amount £M	Maturity
LOBO	2.000	0 – 1 year
PWLB	2.000	0 – 1 year
PWLB	0.429	0 – 5 years
		5 – 10 years
PWLB	0.300	10 – 15 years
PWLB	3.000	15 – 20 years
		20 – 25 years
		25 – 30 years
PWLB	3.335	30 – 40 years
PWLB	8.195	40+ years

- 2.3 In line with the Prudential Code, the maturity of borrowing should be determined by reference to the earliest date on which the lender can require repayment. If the lender has the right to increase the interest rate payable (as in the case of the LOBO loan) then this should be treated as a right to require repayment. In accordance with this guidance the maturity date of the Authority's LOBO loan has been taken as the next call date for the loan. In the current interest rate climate it remains unlikely that this loan will be called immediately.
- 2.4 The Authority's current external debt position (together with forward projections) is shown below. The table shows total external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting that the Authority 'under borrows' compared with the CFR.

External Debt comparison	2014/15 Actual £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
Capital financing requirement (CFR) calculation				
- Property Plant and equipment	36,411	37,742	296,855	298,385
- Investment property	0	0	0	0
- Less – revaluation reserve	-7,474	-7,474	-7,474	-7,474

External Debt comparison	2014/15 Actual £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
- Plus – Capital Adjustment account	33,941	32,505	31,065	39,735
Capital Financing Requirement (per Prudential Code)	62,878	62,773	320,446	330,646
- Less Long Term Lease liability	-12,649	-11,688	-264,224	-248,242
- Less Short term lease liability	-961	-961	-5052	-15982
Total Underlying Borrowing Requirement (A)	49,268	50,124	51,170	66,442
External Borrowing				
- Short term	4,000	2,000	2,429	2,000
- Long term	15,259	15,259	14,830	**15,344
- Managed by other local authorities (Merseyside Residual Debt)	2,355	2,140	1,925	1,710
Total external debt (B)	21,614	19,339	19,184	19,054
Under / (over) borrowing (A-B)	27,654	30,725	31,896	47,368

Notes:

**There is a very large increase in the value of property plant and equipment in 2016/17 as well as a similar increase in the long term lease liability. This reflects the accounting treatment required under the Resource Recovery Contract to bring the EfW and RTLS assets and their associated liabilities onto the Authority's balance sheet as required under CIPFA's Code of Practice.*

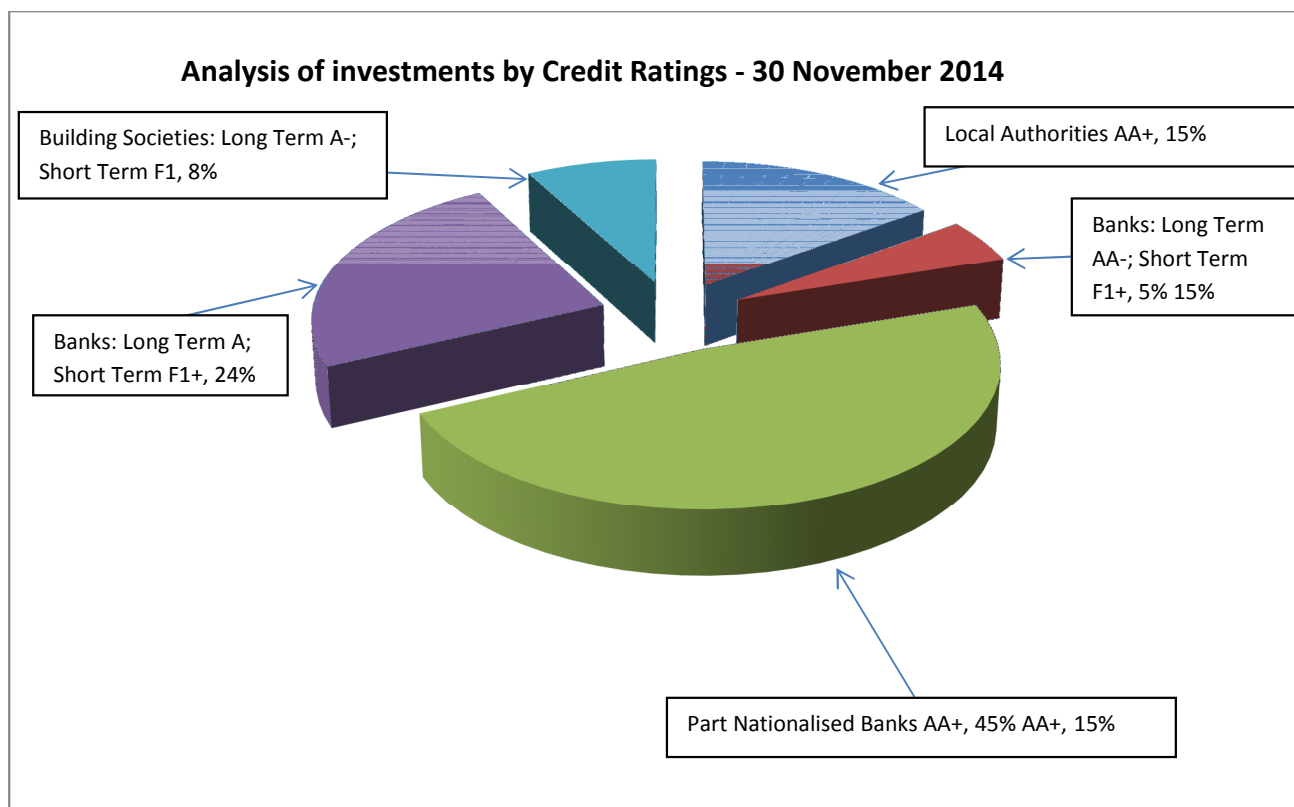
***in 2017/18 the projected balance available in the capital reserve is fully utilised, to fulfil the prospective capital programme additional prudential borrowing of £514k will be required*

- 2.5 Within the prudential indicators there are a number of key indicators to ensure that the Authority operates within defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the CFR in the preceding year plus the estimates of additional CFR for 2015/16 and the following two financial years. The table above shows that the Authority's actual gross debt is comfortably lower than its CFR for the period. The variance, in part, reflects previous strategic decisions to use resources already available to the Authority to negate the need to incur additional borrowing.
- 2.6 The strategy adopted in previous years has been effective with relatively low long term interest rates allowing the Authority to meet its longer term borrowing requirements, as demonstrated by comparison with its Capital Financing Requirement, at an affordable cost. The Authority has also been able to meet repayment requirements on the external debt without incurring early-repayment premiums and therefore to protect its budgetary position against diminishing investment income while reducing the Treasury risk associated with investment holdings.

- 2.7 The Authority's use of capital receipts and other reserves to support the capital programme has been important to enable the Authority to maintain a flexible approach to the Treasury Management Strategy. When the receipts and balances have been used it is likely that any growth in the Capital Financing Requirement would need to be accompanied by an increase in the external borrowing in the same year. This need to borrow will be kept under review over the medium term and is in part dependent upon the need for further capital investment. Pressures on reserves and balances are increasingly significant and they may be less freely available to support capital programme works in future.

Investments

- 2.8 The Authority's funds that are not required for immediate settlement of payments are invested on behalf of the Authority by St Helens Council which provides Treasury Management services under a Service Level Agreement with the Authority. The Council are provided with information from the Authority on prospective dates for the receipt of significant amounts of income (mostly the Levy) and also about when significant payments are due to be made from the Authority (mostly the contract payments in respect of waste services). At the end of 2014/15 it is anticipated that the Authority will have almost £21M available for investment.
- 2.9 The Council's Treasury Managers consult the Authority's officers about the relative risk profile the Authority wishes to adopt in its investment activities (including the scale and security of individual investments with counter parties). Thereafter the Authority's funds are invested by St Helens Council's Treasury management officers in order to maximise the potential income while at the same time ensuring the capital sums are not put at risk. During 2014-15, for example a very large and unusual amount was released from investment by the Treasury Managers, to enable the Authority to pay out a total of £28.9M to District Councils across Merseyside to provide them with funding from the Authority's Waste Development Fund, under the terms of the signed Memorandum of Understanding.
- 2.10 The Authority's funds are invested alongside those of the Council in order to achieve the best rates of returns while maintaining security for the funds. The table below provides an illustration from Quarter 2 of the current year of the proportion of funds invested in each category of organisation. Of the institutions identified in the chart, 64% of funds are invested with counterparties which have AA+ or above rating, namely nationalised banks (which carry the UK Government's AA+ rating), and local authorities. Of the remaining investments all are held with institutions with a long term credit rating of at least A+. The Treasury Management approach adopted by St Helens on behalf of the Authority is designed to ensure that the funds of both organisations are secure, which means a more risky profile is unlikely to be adopted.



2.10 The following table shows the level of funds expected to be available to be invested at the beginning of the year; and those anticipated at the end of the current year:

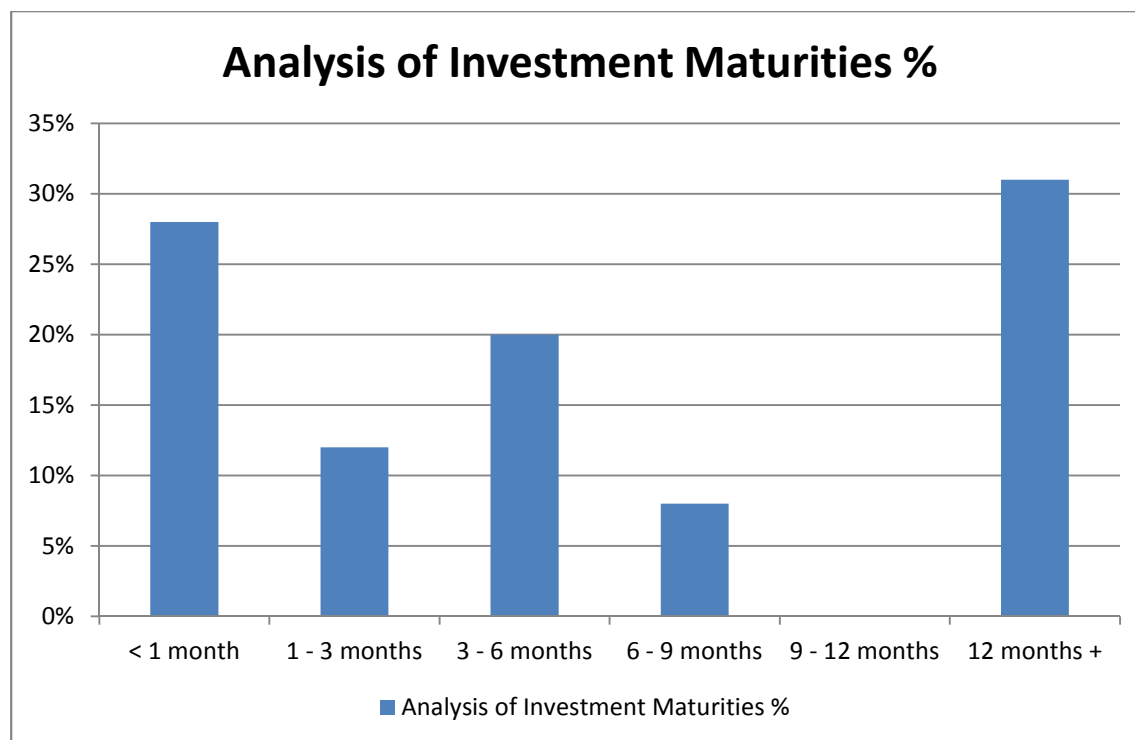
Reserves and Balances	31/3/14 £M	31/3/15 £M	+/- £M	+/- %
General Fund	19.548	15.999	-3.549	-18.1
Waste Development Fund	28.939	0	-28.939	-100.0
Capital Receipts Reserve	0	0	0	0
Provisions*	7.858	0.885	-6.973	-88.7
Capital Fund	4.673	4.075	-0.598	-12.8
Total	61.018	20.959	-40.059	-65.7

** this represents provisions that have been set aside from revenue resources over time, not the additional 'accounting' provision set aside in respect of potential liabilities arising from closed landfill sites and for which an equal and opposite capital accounting adjustment has been made rather than charging the provision to revenue.*

2.11 The level of funds the Authority has available for longer term investments has reduced considerably and the level of investment income will reduce significantly as a result. This reduction in expected interest has been reflected in the revised estimates for the year, as well as in future projections for 2015-16 and beyond. The reduction in investment income will continue to be exacerbated by low level interest rate returns that continue to be forecast into the medium term. While the Treasury Management officers at St Helens Council seek to utilise longer-term fixed rate deposits to lock into favourable rates of return those opportunities are limited to only a small number of counterparties. In the case of the

Authority as the amount available for investment reduces the opportunities for the longer term better rate investments will also continue to diminish.

2.12 The profile of Investment maturities at the time of drafting this report is shown in the following chart:



3. Prospects for Interest Rates

3.1 The Authority uses the Treasury Management functions provided by St Helens Council under the SLA. As a part of that function the Council has appointed Capita Asset Services as treasury adviser for both the Council and the Authority. A part of their service is to formulate a view on interest rates.

3.2 Capita's view on interest rates is set out below in the table and the paragraphs which follow (there is additional detail at annex 1):

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70

Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

- 3.3 UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.
- 3.4 The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.
- 3.5 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;
- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.6 There are few strong factors pushing up market confidence in growing interest rates and therefore the overall view remains that together with the volatility currently being experienced in PwLB and Bond rates it is difficult to predict the future timing of interest rate growth with any certainty. The Bank of England has continued to state that increases in the Bank Rate will be slow and gradual.

4. Borrowing requirement and strategy

4.1 The Authority's in year borrowing requirement for the next and subsequent two financial years are based on the requirements arising from the proposed Capital Programme included in the budget report and calculated as:

	2015/16 £M	2016/17 £M	2017/18 £M
Prudential borrowing	0	0	0.514
Revenue provision	(1.203)	(1.203)	(1.185)
In year capital financing requirement	(1.203)	(1.203)	(0.671)

4.2. These requirements are calculated as:

- (i) that element of the proposed Capital Programme not financed by specific grant, capital receipts or earmarked balances:
- (ii) less the Annual Revenue Provision, as calculated by reference to the Capital Finance and Accounting Regulations 2008 (as considered in section 5).

4.3 The table shows that the in-year capital financing requirement during the three year period is negative. This reflects the Authority's capacity to support the capital programme without the need to borrow additional amounts until 2017/18 when there is the prospect of a small additional borrowing requirement to fulfil the capital programme in that year.

4.4 The current position is a product of previous decisions to use cash arising from available reserves and balances to negate the need to borrow. With historically and abnormally low Bank Rates, the avoidance of new external borrowing has reduced costs in the short term and reduced longer term exposure to interest rate and credit risk.

4.5 The prospect of returning to borrowing during 2017/18 to fulfil the proposed capital programme in that year will be kept under review in light of changes to the requirements for capital expenditure that may be made before then. Given the likelihood of increases in borrowing rates, albeit the timing remains uncertain, there is a risk that any future borrowing may attract higher rates than are currently available.

4.6 Given the prevailing uncertainty the continuing need for caution will underpin the Authority's approach to Treasury Management via St Helens Council. Where conditions are considered to have changed so that they could have an impact on the Authority's underlying financial position Members will be advised and their views sought on which option available provides the most appropriate course of action for the Authority.

5. Annual Revenue Provision Statement

- 5.1 Under Regulation 27 of the Capital Finance Regulations, Local authorities are required to charge their revenue account for each financial year with a Minimum Revenue Provision (MRP) to account for the repayment of principal in that financial year. The requirement to make this statutory provision was amended under regulation 28 of the Capital Finance Regulations 2008. The current Regulation 28 sets out a duty for a Local Authority to make an amount of Minimum Revenue Provision (MRP) which it considers to be prudent.
- 5.2 Under Regulation 28, Authorities are provided with a number of alternative approaches, which can be adopted for the purpose of calculating a 'prudent provision'. The approach by an authority should be outlined in a Statement and submitted to the Authority for consideration. The statement below outlines the approach the Authority undertakes in the calculation of its revenue provision.
- 5.3 The Authority policy is to estimate MRP based on the Asset Life method. Department of Communities and Local Government (DCLG) guidance is that this method may only be used for capital expenditure incurred after 1 April 2008 (para 16); capital expenditure incurred before 1 April 2008 has to be charged based on the regulatory method ie. 2% of opening Capital Financing Requirement (para 16). For finance leases and PFI schemes, the MRP to be charged is the principal element of the contract (para 20).
- 5.4 Para 8 of the DCLG MRP Guidance states that for the CFR method of calculating MRP this 4% of the CFR for the preceding year. Para 16(a) of the DCLG MRP Guidance states that Options 1 and 2 can only be used for capital expenditure incurred before 1 April 2008. This has the following consequences:
- MRP for 2008/09 will be solely based on the CFR for 31/3/2008, because MRP under the Asset Life method only starts in the year following the capital expenditure being incurred (para 10 of the DCLG MRP Guidance refers);
 - Because the Authority opted to use the Asset Life method for all capital expenditure incurred after 1 April 2008, it follows that the CFR method will effectively be based solely on the CFR as at 31/3/2008, because all subsequent expenditure will be on the Asset Life method and revaluations of pre 1 April 2008 capital expenditure will be neutral to the CFR, because upward asset revaluations will be equally matched by upward increases in the Revaluation Reserve for each asset (and vice versa for impairments).
- 5.5 Para 20 of the DCLG MRP Guidance states "In the case of finance leases and on balance-sheet PFI contracts, the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability." The Authority has no finance leases, therefore the only MRP under this option will be the "principal" on the Veolia and on the Sita UK service concession contracts. This will be reviewed when the assets associated with the Resource Recovery Contract (RRC) are brought onto the Authority's balance sheet and MRP calculations will be required.

6. Annual Investment Strategy

- 6.1 Alongside the Treasury Management Service provided by St Helens Council the Authority will have regard to the DCLG's Guidance on Local Government Investments and CIPFA's Code of Practice when working with the Council, which conducts investment activity on behalf of the Authority. The overriding priority of both the Authority and the Council are that security and liquidity of funds are of paramount importance.
- 6.2 In accordance with the above, and in order to minimise the risk to investments the Authority supports the Council's approach to clearly stipulated minimum acceptable credit quality of Counterparties for inclusion on the Council's lending list. The creditworthiness methodology used by the Council to create the Counterparty list takes account of ratings provided by FITCH, one of three main ratings agencies. All investments made during 2015/16 will be in accordance with the Annual Investment Strategy, which is detailed in annex 2 and mirrors the Council's Strategy.
- 6.3 In keeping with previous decisions, the Authority has agreed with the Council's strategy to seek to lock in longer period investments where opportunities and Counterparty criteria permits. At the same time the Council's treasury managers have made maximum strategic use of its call facilities and Money Market Funds (MMFs) for cash flow generated balances and to ensure liquidity. This will continue during 2015-16, subject to:
- i. The outlook for medium term interest rates (i.e. to avoid locking into deals whilst investment rates are at historically low levels and there is a forecast pick up in rates over the medium term);
 - ii. The management of counterparty risk
 - iii. Any opportunities to repay debt using available investments
 - iv. The Authority's liquidity requirements

7. Debt Rescheduling

- 7.1 Debt rescheduling has historically been undertaken in order to:
- i. Generate cash savings at minimum risk;
 - ii. Amend debt maturity profiles and / or the balance of volatility;
 - iii. Aid fulfilment of the Authority's overall borrowing strategy.
- 7.2 Due to the expectation of short term borrowing rates being considerably cheaper than longer term rates there may be some limited opportunities to generate savings by switching from long term to short term debt. However, these potential savings will need to be considered in light of their potentially short term nature and the likely additional cost of refinancing those short term loans, once they mature, compared with the current rates of longer term debt in the existing portfolio.
- 7.3 Consideration will also be given to whether there is potential for making savings by running down investment balances by repaying debt prematurely (as short term investments are

likely to be lower than rates paid on currently held debt). Due to the existence of higher redemption interest rates on PWLB debt premiums are highly likely to compromise such opportunity.

- 7.4 While the Prudential Code allows the premium costs arising from debt rescheduling to be funded from capital receipts, the Authority currently has no such receipts. There are no plans to sell any assets to generate such receipts, although in the event that such a sale took place and a receipt were to be generated the Authority would have another option to reduce liabilities arising from borrowing activity and to reduce longer term revenue costs.
- 7.5 Should any rescheduling opportunities arise that create potential for improvement in the Authority's financial position, prudence will be exercised and any actions will be reported as appropriate to the Authority.

8. Treasury Limits and Prudential Indicators 2014/15 to 2017/18

- 8.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting Regulations for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is the "Affordable Borrowing Limit".
- 8.2 The Authority must have regard to the Prudential Code when setting this limit. The Code also sets a series of limits and indicators that the Authority must consider.
- 8.3 The proposed limits and indicators required for approval for the period 2014/15 to 2017/18 are contained in Annex 3.
- 8.4 The Treasury Management and Prudential limits were not breached in the year 2014-15 up to 31 December 2014.

9. CIPFA Code of Practice: Treasury Management in the Public Services (the Code)

- 9.1 The Authority has affirmed annually that it continues to adopt the Code as a part of the budget reports. This year the Authority is requested to confirm formally the adoption of the Code and its relevant clauses as set out in Annex 4 and in the Treasury Management Policy Statement at Annex 5.

Outlook for Interest Rates

The data below shows forecast interest rates for bank and PWLB made by Capita, the Authority's adviser compared with those of Capital Economics. The comparison shows interest rates at the time of the forecast, and these may have changed, but they confirm a broadly upward move over time, but with some timing differences. There is no expectation of a very significant interest rate rise.

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yrPW IB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yrPW IB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yrPW IB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yrPW IB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yrPW IB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yrPW IB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yrPW IB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yrPW IB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-
Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012													

Annual Investment Strategy 2015/16

1. Purpose

- 1.1 This strategy is submitted to the Authority for approval in accordance with the guidance issued by the then ODPM under section 15 (1)(a) of the Local Government Act 2003.
- 1.2 The strategy covers the period to 31 March 2016 and complements the Treasury Management Strategy 2015/16 and the Treasury Management practices that are adopted as required by the CIPFA Code of Practice: Treasury Management in the Public Services.
- 1.3 In doing so the Annual Investment Strategy sets out:
 - which investments the Authority (working with St Helens Council) may use for the prudent management of any surplus funds during the period, under the heads of Specified Investments and Non-Specified Investments;
 - the procedures for determining the use of each asset class;
 - the maximum periods for which funds may be prudently committed in each class;
 - the upper limits to be invested in each class;
 - the extent to which prior professional advice needs to be sought both from the Authority's Treasury Advisers and the Council Treasury Managers prior to the use of each class; and
 - the minimum amount to be held in short term investments

2. Investment Objectives and Principles

- 2.1 The general policy objective for the Authority is the prudent investment of its surplus funds. The Authority's investment priorities are the security of capital and the liquidity of investments.
- 2.2 The Authority will work with St Helens Council as its investment managers to achieve the optimum return on its investments, commensurate with the proper levels of security and liquidity and having properly assessed all inherent risk, as detailed in its Treasury Management Practices.
- 2.3 The Authority will work with St Helens Council to ensure that temporary borrowing will not be made whilst the Authority has investment funds available and its longer term borrowing activity will have full regard to the content of CIPFA's Prudential Code and the Authority's own approved Treasury Strategy. In particular the Authority will not engage in treasury borrowing activity that is solely for the purposes of investment or on-lending to make a return.

3. Specified and Non-Specified Investment Types

- 3.1 Investment Instruments are broadly classified within government guidance as being Specified or Non-Specified.

3.2 An investment is a Specified Investment if:

- a) the investment is denominated in sterling and any payments or repayments of the investment are only in sterling
- b) the investment is not a long term investment
- c) the making of the investment is not defined as capital expenditure by virtue of Regulation 25 (1)(d) of the Local Authorities (Capital Finance and Accounting) Regulation (England) Regulations 2003 (SI 3146 as amended); and
- d) the investment is made with a body or investment scheme which has been awarded a high credit rating by a credit rating agency or is made with the UK Government, a Local Authority in England and Wales (as defined in Section 23 of the Act), a Parish or Community Council.

3.3 Non-Specified Investments are those investments not meeting the definition of a specified investment and, inherently, are subject to greater degrees of treasury risk. They do, however, offer some potential diversification. As a result, and as part of an overall strategy, a small number are identified via St Helens Council's Treasury Managers as being potentially suitable for use, dependent upon prior consultation and advice from the Authority and the Council's shared Treasury Management consultants.

3.4 In assessing the relative characteristics of each possible instrument type, the risk attached in their use and how their use would assist in the delivery / achievement of the Authority's investment objectives and principles, Annex A has been prepared to detail those instruments that are proposed may be used as part of the investment strategy.

4. Credit and Counterparty Policies

4.1 The Authority is guided by the Council which relies on credit ratings published by FITCH, an independent rating agency to establish the credit quality of Counterparties (issuers and issues) and investment schemes. Credit Rating lists are reviewed by the Council on a regular basis to ensure prompt action to remove institutions whose ratings fall below the Council's threshold (which safeguards the Authority). The Council's Treasury Management Practices document the approach to this review.

4.2 The Council's Treasurer has a delegated authority from the Council to establish the criteria by which the lending list is compiled for internally managed investments. The Authority is consulted on the criteria for the list, which is contained in annex B.

5. Liquidity of Investments

5.1 The need to ensure liquidity by the continuous management and monitoring of the Council and the Authority's cash transactions and resources is one of the key objectives of the Treasury function and the approach to liquidity risk management is fully documented in the Council's Treasury Management Practices.

5.2 The limits included in Annex A are a reflection of the overriding importance of liquidity, and in addition to those, as a general rule the Council aims to ensure that it has a minimum of 15% of the investments it makes for the Authority and the Council held with a maturity of

less than one week at all times. Where cash-flow expectations dictate, this general rule will be amended accordingly.

6. Investment Strategy – Internally Managed Investments

- 6.1 All investments made in the duration of this strategy will comply fully with the strategy.
- 6.2 Decisions taken within the framework, regarding the period and type of investment, will be taken having regard to future cashflow requirements and likely interest rate movements. A suitable proportion of investments will be held “at call” for contingent purposes to allow for any significant investment opportunities for longer periods that may become available.
- 6.3 The relatively low base rate over recent years has led the Council’s treasury Managers to seek, where possible, to lock in to fixed rate deals at advantageous rates through the use of special tranche deals. This practice will continue in 2015/16, subject to:
- i. The outlook for medium term interest rates (i.e. to avoid locking into deals whilst investment rates are at historically low levels and there is a forecast pick up in rates over the medium term);
 - ii. The management of Counterparty risk;
 - iii. Any opportunities to repay debt using available investments; and
 - iv. The Authority and the Council’s liquidity requirements
- 6.4 working on behalf of the Authority and the Council, maximum strategic use will be made of the Council’s competitive call account facilities and the AAA rated money market funds to which the Council and the Authority have access to during the period.

7. Investment Strategy – Externally Managed Funds

- 7.1 Neither the Authority, nor its agent the Council, currently engage any Fund Managers to invest monies on their behalf. This has been the position since a Treasury Management review of fund manager activity and the decision in 2007 to repatriate funds held by the then fund manager.
- 7.2 Arrangements for the re-engagement of fund managers at a future point may be considered in consultation with the Council and the appointed Treasury Management consultants. If it were to be considered that the engagement of a fund manager may be warranted, then the Authority would work with the Council to ensure that a full tender exercise be considered and a formal agreement would be entered to determine the scope of activity.

8. Reporting arrangements

- 8.1 The Authority will receive reports on the activities planned and undertaken at least twice each year, as part of the budget setting exercise and as part of the closedown of the Authority’s year end accounts. In addition if there are any matters during the year that require the Authority to consider then reports will be made directly to the Authority.

**Local government Investments (England)
Specified versus Non-Specified Investments**

The English Investment Guidance issued by the ODPM on 22 March 2004 defined Local Government investments as being either “Specified” or “Non-Specified”. The guidance was, however, non-prescriptive in classifying the various investment instruments available into either of these categories. Indeed, in a continually changing market where new innovative ‘products’ are frequently being introduced it would be extremely problematical, if not impossible to do.

Much focus and emphasis is therefore placed on that element of the Guidance which states that Specified Investments should require “minimal procedural formalities”. The Authority and the Council’s Treasury Management advisers have discussed this issue directly with the DCLG, who have expressed their desire to see Local Authorities apply the spirit of the Guidance rather than focus on a legalistic approach to the meaning of words in the Guidance. The spirit of the Guidance is that investment products, which take on greater risks and therefore should be subject to greater scrutiny should be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy and so should fall into the Non-Specified category.

The following tables have been drafted on that basis.

Local government Investments (England)
Specified Investments

All "Specified Investments" listed below must be sterling denominated with maturities of up to 1 year

Investment	Repayable / Redeemable within 12 months?	Security / Minimum credit rating	Use for managing internal investments	Maximum period
Debt Management Agency Deposit Facility (DMADF)	Yes	Govt-backed	Yes	6 months
Term deposits with UK Government or with UK local Authorities (i.e. Local Authorities as defined under section 23 of the 2003 Act) with maturities up to 1 year	Yes	High security although local authorities are not credit rated	Yes	1 year
Term deposits with credit-rated deposit takers (Banks and Building Societies) with maturities up to 1 year	Yes	See*	Yes	1 year
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No. 534). <i>These funds do not have any maturity date</i>	Yes	Yes: AAA	Yes	<i>The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements</i>
Forward deals with credit rated Banks and Building Societies < 1 year (i.e. negotiated deal period plus period of deposit)	Yes	See*	Yes	1 year in aggregate
Callable deposits with credit rated Banks and Building Societies, with maturities not exceeding 1 year	Yes	See*	Yes	1 year
Call Account Facilities with credit rated deposit takers (Banks and Building Societies)	Yes	See*	Yes	n/a

**Subject to approved credit rating criteria as determined in the Annual Investment Strategy of St Helens Council as the Authority's agent, or as a result of delegation by the Council to the St Helens Treasurer in accordance with the Council's Treasury Management Practices.*

Local government Investments (England)
Non-Specified Investments

Investment	Repayable / Redeemable within 12 months?	Security / Minimum credit rating	Use for managing internal investments	Maximum maturity of Investments
Term Deposits with credit rated deposit takers (Banks and Building Societies) with maturities greater than 1 year	No	See*	Yes	3 years
Term deposits with UK Government or with UK local Authorities (i.e. Local Authorities as defined under section 23 of the 2003 Act) with maturities greater than 1 year	No	High security although local authorities are not credit rated	Yes	3 years
Certificates of Deposit with credit rated deposit takers (Banks and Building Societies) <i>Custodial arrangement required prior to purchase</i>	Yes	See*	Yes – after consultation with external Treasury Consultants	3 years
Callable deposits with credit rated deposit takers (Banks and Building Societies) with maturities greater than 1 year	Potentially	See*	Yes	3 years
Forward deposits with credit rated Banks and Building Societies for periods > 1 year (i.e. negotiated deal period plus period of investment)	No	See*	Yes – after consultation / advice from external Treasury Consultants	3 years in aggregate
Structured Deposits where investment returns are determinant on how specified interest rate structures move over a determined period	Potentially	n/a	Potentially – after consultation / advice from external Treasury Consultants	3 years

**Subject to approved credit rating criteria as determined in the Annual Investment Strategy of St Helens Council as the Authority's agent, or as a result of delegation by the Council to the St Helens Treasurer in accordance with the Council's Treasury Management Practices.*

Counterparty Criteria 2015/16

Counterparty category		Credit ratings					Maximum Investment (1)	Maximum period
(i)	Part Nationalised banks	See below (2)					£25M £35M for RBS group	2 years including on call
(ii)	Money Market Funds (MMF)	AAA rated (3)					£25M per MMF (£100M total)	On call
(iii)	Other local authorities and public bodies	AAA rated					£50M	2 years
FITCH RATINGS		Long term	Short term	Viability	Support	Sovereign		
(iv)	Authorised institutions (under the Banking Act 1987) which hold a suitable credit rating	AA- and above	F1+	aa- and above	1	AA+ and above	£25M	2 years
		A and above	F1 and above	a- and above	1	AA+ and above	£20M	12 months
(v)	Call accounts held with authorised institutions (under the Banking Act 1987) which hold a suitable credit rating	AA- and above	F1+	aa- and above	1	AA+ and above	£25M	On call
		A and above	F1 and above	a- and above	1	AA+ and above	£20M	On call
(vi)	Building Societies which hold a suitable credit rating	AA- and above	F1+	aa- and above	1	AA+ and above	£15M	2 years
		A and above	F1 and above	a- and above	1	AA+ and above	£10M	12 months

Notes to Counterparty Criteria

1. For each institution meeting the criteria above and subject to the limits for maximum investments, no single investment transaction should be undertaken for more than £10M.
2. In interpreting the lending criteria detailed above it should be accepted that the part nationalised banks in the UK (Lloyds Group and Royal Bank of Scotland Group) have credit ratings that do not conform to the credit criteria used by Local Authorities to identify banks which are of high credit worthiness. In particular as they are no longer separate institutions in their own right it is impossible for Fitch to assign them an individual rating for their stand-alone financial strength. However, these institutions are recipients of an F1+ short term rating as they effectively take on the credit worthiness of the Government i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts they have the highest ratings possible. Until such time as a decision is made by the Government to dispose of their interests in these banks, investments in these institutions can be made on the basis that they meet the highest criteria.
3. Each individual Money Market Fund (MMF) used must be separately approved by the St Helens Treasurer via a St Helens Council Administrative Decision.

Treasury Limits and Prudential Indicators

Treasury Limits and Prudential Indicators 2014/15 to 2017/18			2014/15 Revised	2015/16 Estimates	2016/17 Estimates	2017/18 Estimates
1(i)	Proposed capital expenditure that the Authority plans to commit during the forthcoming subsequent two financial years	Capital Expenditure (£M)	0.598	1.478	1.600	1.512
1(ii)	Additional in year borrowing requirement for capital expenditure	In year Capital Financing Requirement (CFR) (£M)	(1.213)	(1.213)	(1.213)	(0.671)
2	The CFR is an aggregation of historic and cumulative capital expenditure which has yet been paid for by either revenue or capital resources	Capital Financing Requirement as at 31 March (£M)*	62.828	62.773	320.446	330.646
3	The 'net borrowing' position represents the net of the Authority's gross external borrowing and investments sums held	Net Borrowing requirement: External borrowing (£M) Investments held (£M)** Net requirement (£M)	21.614 (20.958) (0.656)	19.399 (17.397) (2.002)	19.184 (7.980) (11.204)	19.054 (4.048) (15.006)
4	Identifies the impact and trend that the revenue costs of capital financing decisions will have on the General Fund budget over time	Ratio of financing cost to net revenue stream	2.99%	2.87%	3.16%	3.22%
5	The Authority's budget strategy has been to support capital spending from reserves set aside, in future to fund the capital programme additional borrowing is likely to be required	Incremental impact of capital investment decisions (increase in Levy %)	0	0	0	0
6	This represents an absolute limit on borrowing at any one	Authorised limit for External Debt (£M)	27.193	24.978	24.763	24.633

	point in time. It reflects the level of external debt which, while not desired, could be afforded in the short term but which is not sustainable in the longer term					
7	This is the limit beyond which external debt is not normally expected to exceed	Operational Limit for External Debt (£M)	23.553	21.338	21.123	20.993
8	These limits seek to ensure that the authority does not expose itself to an inappropriate level of interest rate risk, and has a suitable proportion of debt	Upper limit for Fixed Interest Rate Exposure	100%	100%	100%	100%
		Upper limit for Variable Interest Rate Exposure	50%	50%	50%	50%
9	This limit seeks to ensure liquidity and reduce the likelihood of any inherent or associated risk	Upper Limit for Sums Invested over 364 days	60%	60%	60%	60%

* *CFR calculation includes assumptions about the treatment of assets under IFRIC 12 as part of the Resource Recovery Contract (RRC), there are offsetting lease liabilities which will also feature in the authority's balance sheets in future years*

** *includes assumptions about the release of surplus funds from MWHL in 2015-16 and then again in 2017-18 but the latter funds release will depend upon the delivery of the RRC*

Adoption of the CIPFA Treasury Management in the Public Services Code of Practice and cross sectorial-guidance notes

The 2011 revision of the CIPFA Code recommends that all public service bodies formally adopt four specific clauses as contained in the Code. All requirements of the Code are implemented through the governance frameworks, policies, systems, procedures and controls in place both in the Authority and the Council which provides Treasury Management functions, and will continue to be so. For completeness it is recommended that the Authority formally approve the following:

- 1 The Authority will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approaches to risk management of its treasury management activities. In the case of the Authority this will mirror the policy statement of St Helens Council which provides the Treasury Management function for the Authority.
 - The use of suitable Treasury Management Practices (TMPs) as developed by St Helens Council, which set out the manner in which St Helens, on the Authority's behalf, will seek to achieve those policies and objectives, and prescribing how it will manage and control those objectives.
- 2 The Authority will receive reports on the Treasury Management policies, activities and practices carried out on its behalf, including as a minimum an annual strategy and plan in advance of the year and an annual review after the year end, together with such updates as may be required where there are unplanned changes.
3. The Authority will work with the Director of Finance in the administration of Treasury Management decisions, and in particular the Director of Finance will liaise closely with the St Helens Treasurer to whom the Authority has delegated the day to day operation of Treasury Management policy and practices on behalf of the Authority under a Service Level Agreement (SLA). The Council will act in accordance with the approved Policy Statement, and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.
4. The Authority is responsible for ensuring effective scrutiny of the treasury management strategy and practices.

Treasury Management Policy Statement

The policies and objectives of the Treasury Management function under the SLA are defined as follows:

1. Treasury Management is 'the management of the Authority'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'.
2. The successful identification, monitoring and control of risks are 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. It is acknowledged that effective Treasury Management will provide support towards the achievement of its business and service objectives and the Authority is committed to the principles of value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.