Appendix 1

Treasury Management Strategy Report 2015/16

1.0 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate security and liquidity initially before considering investment return.

The second main function of a treasury management service is the funding of an authority's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations.

This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasions any debt previously drawn may be restructured to meet Council risk or cost objectives. Currently, however, the Council does not finance its capital investment by way of borrowing, so these activities are not presently engaged in.

Treasury management is defined as:

"The management of the local 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."

1.2 Statutory Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The reports required are as follows:

Prudential and Treasury Indicators and Treasury Strategy (this report)

This report is required to be scrutinised by the Finance, Resources and Partnerships Scrutiny Committee prior to being reported to Full Council. This report covers:

- Prudential indicators;
- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;
- An Investment Strategy (the parameters on how investments are to be managed); and
- A Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time).

A Mid Year Treasury Management Review Report

This report is required to be scrutinised by the Audit and Risk Committee. This will update members with the progress of the treasury management performance for the first half of the financial year and whether or not the treasury strategy approved by Full Council prior to commencement of the financial year is still appropriate or requires revision.

An Annual Treasury Outturn Report

This is reviewed by the Audit and Riks Committee and is then reported to Full Council for approval. This provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 covers two main areas:

Capital Issues

- Prudential indicators;
- The Minimum Revenue Provision (MRP) Policy (Annex C).

Treasury Management Issues

- Treasury indicators which will limit the treasury risk and activities of the Council;
- Policy on use of external service providers;
- The current treasury position;
- Prospects for interest rates;
- Policy on borrowing in advance of need;
- The investment strategy (Annex A);
- Creditworthiness policy (Annex B); and
- Treasury management Glossary of Terms (Annex D).

These elements cover the requirements of the:

- Local Government Act 2003;
- CIFPA Prudential Code:;
- DCLG MRP Guidance;
- CIPFA Treasury Management Code; and
- DCLG Investment Guidance.

2.0 Prudential and Treasury Indicators

2.1 Background

This report incorporates a number of Prudential Indicators in relation to treasury management in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Code"). Regulations to the Local Government Act 2003 lay down that the Council shall have regard to the Prudential Code in determining an affordable borrowing limit.

The indicators are intended to demonstrate that the Council has fulfilled the objective of ensuring that its capital investment decisions are prudent, affordable and sustainable – or in exceptional cases to demonstrate that there is a danger of not ensuring this, so that timely remedial action can be taken. They are further designed to ensure that treasury management decisions are taken in a manner that supports prudence, affordability and sustainability.

2.2 Capital Prudential Indicators

Actual and Estimate of Capital Expenditure

This indicator relating to Actual and Estimates of Capital Expenditure is reported separately to the Council meeting which sets the General Fund Revenue Budget and the Council Tax (25 February 2015).

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The Capital Financing Requirement is derived from the Council's balance sheet by consolidating various items appearing in it which relate to capital, such as, fixed assets (including property, plant and equipment, investment properties, long term debtors, assets held for sale and intangible assets); the revaluation reserve, capital adjustment account and deferred capital receipts. It is essentially a measure of the Council's underlying borrowing need. Following the introduction of International Financial Reporting Standards (IFRS) in 2011/12, the calculation of the CFR now has to include any other long term liabilities (e.g. finance leases) brought onto the balance sheet. The relevant figures for this Council are set out in the table below:

31/03/14 Actual (£000's)	31/03/15 Estimate (£000's)	31/03/16 Estimate (£000's)	31/03/17 Estimate (£000's)	31/03/18 Estimate (£000's)
(360)	(360)	(360)	1,000	1,000

The amounts shown above from 2015/16 onwards allow for the possibility that the Council may need to borrow during those years to finance capital expenditure which cannot be funded from other revenue or capital resources. However, the likelihood of individual schemes, the timings and the amounts involved cannot be assessed with any certainty at this point.

2.3 Affordability Prudential Indicators

Estimates of the Incremental Impact of Capital Investment Decisions on Council Tax

This indicator relating to Estimates of the Incremental Impact of Capital Investment Decisions on Council Tax is reported separately to the Council meeting which sets the General Fund Revenue Budget and the Council Tax (25 February 2015).

Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Financing Costs comprise the aggregate of: interest payable on loans and finance leases; premiums or discounts in relation to premature debt repayment; interest receivable and investment income; the amount charged as a 'Minimum Revenue Provision; depreciation and impairment charges that have not been reversed out of the revenue account.

Net Revenue Stream is defined as the 'amount to be met from government grants and local taxpayers'. This is the Council's 'budgetary requirements' figure shown in the General Fund Revenue Budget, being the net expenditure for the year before deducting government grants (Revenue Support and Business Rates Retention) and adjusting for the Collection Fund surplus/deficit. The relevant figures for this Council are set out in the table below:

	2013/14 Actual (£000's)	2014/15 Estimate (£000's)	2015/16 Estimate (£000's)	2016/17 Estimate (£000's)	2017/18 Estimate (£000's)
Net Revenue Stream	15,194	14,894	14,894	14,894	14,894
Financing Costs	(63)	(56)	(39)	(75)	(93)
Ratio	(0.41%)	(0.38%)	(0.26%)	(0.50%)	(0.62%)

The current negative Financing Costs reflect the position that the Council's investment income and other interest exceed the interest paid to service its external debt/finance leases.

2.4 Treasury Indicators

Current Portfolio Position – Debt

Currently the Council has no long term external debt and is categorised as a 'debt free' authority. Short term external loans (i.e. repayable on demand or within 12 months) can be taken to fund any temporary capital or revenue borrowing requirement. The amounts involved would fluctuate according to the cash flow position at any one time. Such short term borrowing does not affect the Council's 'debt free' status.

Any surplus funds arising, for example from favourable cash flow or as a result of asset sales, are potentially available for use as an alternative to short term borrowing. The Actual External Debt of the Council as at the end of the previous financial year is a Prudential Indicator. This indicator comprises actual borrowing (short and long term) as shown in the Council's balance sheet. This indicator will reflect the actual position at one point in time. As at 31 March 2014 the Actual External Debt of the Council was nil.

Current Portfolio Position – Investments

It is estimated that the amount of receipts in hand, plus reserve balances, and available for investment at 1 April 2015 will be in the region of £5,000,000, all of which will be managed In House.

Limits to Borrowing Activity

The Local Government Act 2003 requires each local authority to determine and keep under review how much money it can afford to borrow. This is to be determined by the calculation of an affordable borrowing limit which Regulations to the Act specify should be calculated with regard to the CIPFA Prudential Code.

At present borrowing is not being used to fund the capital programme because the Council has had sufficient reserves and useable capital receipts to finance capital expenditure from these sources. Borrowing may become an option if these resources become sufficiently depleted that they are insufficient to finance proposed capital expenditure deemed to be affordable, if the costs of borrowing compare favourably with those of alternatives such as using unapplied capital receipts, or if in fact there is a sufficient business case to do so.

There may be a requirement to temporarily fund some capital expenditure by means of borrowing during the interim period before a permanent means of finance becomes available, for example whilst awaiting receipt of Government grant. As well as temporary borrowing required for capital purposes, it may also be necessary to borrow in order to cover any temporary shortfall in revenue income which may arise owing to either a mismatch between income and expenditure or problems concerning the non payment of amounts due to be paid by the Council's customers. These factors have been taken into account in calculating the Prudential Indicators referred to below.

Projections of the need for capital investment in projects necessary to ensure operational continuity over the next few years, together with projections of likely capital receipts arising from asset sales and the availability of reserves to finance this expenditure indicate that there is likely at some point to be an adverse gap between expenditure and resources to finance it. This increases the likelihood of borrowing being used over the period of this strategy, particularly as an interim measure to bridge the gap between expenditure being incurred and funds from asset sales being realised. The amounts included for permitted borrowing in the Operational Boundary and Authorised Limit below take account of this. It should be noted that this does not indicate a definite intention at this point in time to borrow up to this amount or at all but is required to permit the option of borrowing to be employed, if necessary.

The Operational Boundary

This indicator gives a prudent view of the possible external debt during the course of the year. It is not a limit and actual borrowing can vary around this boundary for short times during the year. It should act as an indicator to ensure that the Authorised Limit is not breached. The Code requires the inclusion of a figure, separately shown, for Other Long Term Liabilities.

Following the introduction of International Financial Reporting Standards in 2011/12, finance leases must now be included in this figure. As referred to above, the Council may, if considered desirable from a treasury management point of view, take out long term loans to finance capital expenditure incurred in 2015/16, 2016/17, 2017/18 and 2018/19.

The figures shown in the table below reflect the possibility that up to £5,000,000 may be borrowed at any one time on a long term basis in 2015/16. The Operational Boundaries for the Council are set out below:

	2015/16 Estimate (£000's)	2016/17 Estimate (£000s)	2017/18 Estimate (£000's)	2018/19 Estimate (£000's)
Borrowing	5,000	5,000	5,000	5,000
Other Long Term Liabilities	365	365	365	365

The Authorised Limit for External Borrowing

This represents the limit beyond which borrowing (long and short term added together) is prohibited. Officers responsible for day-to-day treasury management operations must ensure that the Council's borrowings do not exceed this limit. It reflects the level of borrowing which, while not desired, could be afforded in the very short term i.e. overnight to two weeks, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. It is a statutory limit which Councils must determine in accordance with Section 3 (1) of the Local Government Act 2003. The Authorised Limits for the Council are set out in the table below:

	2015/16 Estimate (£000's)	2016/17 Estimate (£000s)	2017/18 Estimate (£000's)	2018/19 Estimate (£000's)
Borrowing	15,000	15,000	15,000	15,000
Other Long Term Liabilities	365	365	365	365

Sources of Borrowing

Temporary borrowing can take place via money brokers, from building societies, banks, local authorities, individuals and commercial organisations. If the Council decides to borrow on a long term basis to fund capital expenditure all borrowing options available will be reviewed.

Interest Rates, Loan Periods and Types of Loan

The most favourable options will be selected, depending upon market conditions prevailing at the time of borrowing. The aim will be to minimise the impact upon revenue accounts and to achieve efficient management of the Council's debt portfolio. Advice will be taken, as appropriate from the Council's treasury management advisors. The Council will be eligible for loans at a reduced rate, around 20 basis points less than normally available, (the Treasury Certainty Rate) from the PWLB during 2015/16.

Limits on Interest Rate Exposures (fixed and variable interest rates)

The following limits will apply in relation to the Council's interest rate exposure. They relate to interest on both borrowings and investments. These limits are intended to reduce the risk of the Council suffering unduly from significant adverse fluctuations in interest rates.

Limit on Fixed Interest Rate Exposures (as a percentage of total borrowings/investments)

	Borrowing		Investments	
	Upper	**Lower**	**Upper**	**Lower**
2015/16	100%	0%	100%	0%
2016/17	100%	0%	100%	0%
2017/18	100%	0%	100%	0%
2018/19	100%	0%	100%	0%

Limit on Variable Interest Rate Exposures (as a percentage of total borrowings/investments)

	Borrowing		**Investments**	
	Upper	**Lower**	**Upper**	**Lower**
2015/16	100%	0%	100%	0%
2016/17	100%	0%	100%	0%
2017/18	100%	0%	100%	0%
2018/19	100%	0%	100%	0%

In relation to both investing and borrowing fixed rate investments and loans may be anything between 0% and 100% of the total, with the same proportions being permitted for variable rate loans – in effect there is no limit on each type. This enables maximum flexibility to be afforded to your officers to take advantage of prevailing interest trends to obtain the best deal for the Council.

Total Principal Funds Invested for Periods Greater than 364 days

The Council will determine the maximum periods for which funds may prudently be committed. Investments will be for whatever period is considered appropriate by your officers at the time that the investment is made. Regard will be had to relevant matters such as likely future capital values and the Council's forecast need to realise investments in the future in order to finance capital expenditure or for any other purpose.

There will be a limit placed upon the amount which may be invested for periods in excess of 364 days. Investments will be regarded as commencing on the date the commitment to invest is entered into, rather than on the date on which the funds are paid over to the Counterparty.

This Treasury Indicator is intended to limit the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment of sums invested. It consists of the amount that it is considered prudent to have invested for a period greater than 364 days in each of the next three years. The limits as set out in the table below will apply:

	£000's
Beyond 31/03/16	5,000
Beyond 31/03/17	5,000
Beyond 31/03/18	5,000

It should be noted that in practice the sums available for investment are unlikely to be sufficient to allow amounts of this magnitude to be invested for such extended periods. In fact at present investments are being restricted to periods of 3 months or less due to cash flow fluctuations and on account of continuing uncertainties with regard to the credit worthiness of counterparties with whom investments could be placed.

3.0 Leasing

3.1 Requirement for the Year

In previous years the Council has acquired some items of plant by means of leases and major items of equipment may also be obtained in the same way.

The total amount of leases to be entered into during the year will depend upon the replacement requirement for vehicles and plant and upon any new requirements arising during the year. It will also depend upon the attraction of leasing as opposed to other forms of finance which may be available, in particular in comparison with contract hire terms for vehicles and plant and the availability and relative cost of internal sources of funding. The appropriate form of finance will be chosen to obtain the best deal for the Council at the time that the requirement arises.

3.2 Period and Type of Lease

An appropriate lease period will be chosen in relation to the type of asset concerned and to achieve the most satisfactory revenue account impact. Fixed or variable rate leases may be taken out; which is used will depend upon market conditions prevailing at the time the decision is made.

3.3 Leasing Consultants

The current contract with the Council's treasury management advisors includes the provision of leasing advice.

4.0 Treasury Management Training

4.1 Training Courses

The training need regarding treasury management officers is periodically reviewed. Officers engaging in Treasury Management activities will also attend any suitable courses/seminars provided by the Council's treasury management advisors and any other appropriate organisations where it is considered that this will increase or complement their expertise in relation to the Treasury Management function.

4.2 Members Training

It is envisaged to run some training sessions for Members in respect of Treasury Management during the 2015/16 financial year.

5.0 Policy on the use of External Service Providers

5.1 Officers work with the Council's treasury management advisors to monitor market trends and to advise on strategic considerations affecting borrowing strategy and sums available for investment and any other relevant treasury management matters. Quarterly meetings are held to ensure quality of service is maintained and to develop a constructive relationship. The current contract, awarded to Sector Treasury Services Ltd, expires on 31 March 2017.

6.0 Prospects for Interest Rates

6.1 Part of the service provided by the Council's advisors is to assist the Council to formulate a view on interest rates. The following table and information gives the current provider's central view:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

6.2 Economic Situation (as supplied by Sector Treasury Services Ltd)

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, exceeding all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particulalry in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone. There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established.

One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by warranting increases in pay rates. In addition the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, although the current view on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future.

The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Concerns in respect of a major crisis in the Eurozone 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 the economy could be heading into deflation and a triple dip recession since 2008;
- 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;
- Counterparty risk 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. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates;
- The method of avoiding new borrowing by running down spare cash balances has served authorities 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.

7.0 Treasury Management Scheme of Delegation

7.1 Full Council

- Receiving and reviewing the Treasury Management Strategy /Annual Investment Strategy/Minimum Revenue Provision Strategy on an annual basis (including updates and revisions at other times).
- Receiving the Annual Treasury Outturn Report.

7.2 Finance, Resources and Partnerships Scrutiny Committee

- Scrutiny of the Treasury Management Strategy prior to submission to Full Council.

7.3 Audit and Risk Committee

- Scrutiny of Treasury Management performance including receiving and reviewing the mid-year report.
- Reviewing the Annual Outturn Report

8.0 Treasury Management role of the Section 151 Officer

8.1 The S151 (responsible) Officer Role

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit, and liaising with external audit;
- Recommending the appointment of external service providers.

ANNEX A

Investment Strategy 2015/16

1.0 Introduction

1.1 Background

This strategy is compiled according to the DCLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") It sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments (and finally what return can be obtained consistent with these priorities).

In accordance with the above and in order to minimise the risk to investments, the Council has (in Annex B) clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. Using the advisor's ratings service, bank's ratings are monitored in real time with knowledge of any changes notified electronically as the agencies notify any modifications.

The aim of this strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and avoid the concentration of risk. The intention of the strategy is to provide security of investment and minimisation of risk.

1.2 Possible Revisions to the Strategy

The initial strategy may be replaced with a revised strategy at any time during the year in cases where any treasury management issues (including investment issues) need to be brought to the attention of Full Council.

2.0 Security of Investments

2.1 Specified and Non-Specified Investments

In accordance with the Investment Guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which of two categories, Specified or Unspecified, the proposed investment falls into.

Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity);
- Supranational bonds of less than one year's duration;
- A local authority, parish council or community council;
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency;
- A body that is considered of a high credit quality (such as a bank or building society).

Non-Specified Investments

These investments are any other type of investment (i.e. not defined as Specified above). If the Council were to consider placing funds in any other type of investment which would be categorised as Non-Specified, the security of the capital sum would be the paramount concern. The same requirements as to credit ratings relating to Specified Investments will apply, and in appropriate cases the advice of the Council's treasury management advisors will be sought.

In considering whether it is prudent to place funds for longer than 12 months in 2015/16 and in determining the period of such investment the principles and limits set out under "3.0 Liquidity of Investments" below will apply together with the counterparty listing criteria set out in Annex B.

2.2 Use of Treasury Management Advisor's Creditworthiness Service

This Council uses the creditworthiness service provided by the Council's treasury management advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard and 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 (CDS) 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, credit outlooks in a weighted scoring system for 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 duration for investments and are therefore referred to as durational bands.

All credit ratings will be monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the treasury advisor's creditworthiness service. Further details of the counterparty listing criteria can be seen in Annex B.

2.3 Approved Investment Instruments

The Council has laid down a list of approved investment instruments in the Schedule to Treasury Management Practice 4 (TMP4). These are reproduced below:

Extract from Schedule to TMP 4

"The following types of investments will be permitted, fixed cash deposits, certificates of deposit issued by organisations falling into the categories listed under TMP1 (5), registered British Government Securities (Gilts) and Money Market Funds. Officers of the Council may only invest in Fixed Cash Deposits and Money Market Funds."

Because fund managers are not currently employed this means that investments in 2015/16 will be limited to fixed cash deposits (including deposit accounts and current accounts), money market funds and the Debt Management Account Deposit Facility (DMADF). The DMADF is guaranteed by HM Government and offers investors a flexible and secure facility to supplement their existing range of investment options.

3.0 Liquidity of Investments

3.1 Maximum Investment Periods

The Council will determine the maximum periods for which funds may prudently be committed. Investments will be for whatever period is considered appropriate by officers at the time that the investment is made. Regard will be had to relevant matters such as likely future capital values and the Council's forecast need to realise investments in the future in order to finance capital expenditure or for any other purpose. The principles concerning time limits contained in the Schedule to the Treasury Management Practices will be followed.

There will be a limit placed upon the amount which may be invested for periods in excess of 364 days. This limit has been set using one of the Prudential Indicators required by the Chartered Institute of Public Finance and Accountancy Prudential Code for Capital Finance in Local Authorities. Investments will be regarded as commencing on the date the commitment to invest is entered into, rather than on the date on which the funds are actually paid over to the Counterparty.

This Prudential Indicator is intended to limit the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment of sums invested. It consists of the amount that it is considered prudent to have invested for a period greater than 364 days in each of the next three years. The limits as set out in the table below will apply:

	£000's
Beyond 31/03/15	5,000
Beyond 31/03/16	5,000
Beyond 31/03/17	5,000

It should be noted that in practice the sums available for investment are unlikely to be sufficient to allow amounts of this magnitude to be invested for such extended periods.

4.0 Return on Investments (Yield)

4.1 Current Economic Climate

Due to ongoing global economic uncertainties, investment returns are likely to remain relatively low during 2015/16. Interest rates on Instant access deposit accounts and Notice accounts have previously been more attractive than interest rates being offered by the market. However, banks have now reduced the rates they offer on their instant access and notice accounts.

4.2 Prudent Investments

Priority will be given to the security and liquidity of all investments. Consistent with achieving the proper levels of security and liquidity, the highest rate of return will be sought for any investment made.

5.0 Specific Strategy 2015/16

5.1 Capital Receipts in Hand and Balances Held in Reserves

Amount Available for Investment

It is estimated that the amount of receipts in hand, plus reserve balances, and available for investment at 1 April 2015 will be in the region of £5,000,000.

Period of Investment

This will be determined in accordance with 3.0 (Liquidity of Investments) above.

Forward Commitment

This involves agreeing in advance to place an investment with a borrower at a future specified date at an agreed interest rate. It is done in order to obtain the benefit of what are considered to be better rates than might be available later, when physical funds are likely to be available. No forward commitment has taken place to date in 2014/15. It is possible that forward commitment may be employed in 2015/16 in instances where market conditions warrant it.

Return on Investment

The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments.

5.2 Investment of Money Borrowed in Advance of Need

It is not the Council's intention to undertake any borrowing in advance of need during 2015/16.

5.3 Other Temporary Surpluses

Amount Available for Investment

In addition to the receipts and reserve balances referred to above, the Council will, from time to time, find itself in possession of funds in excess of its immediate requirements. This may occur, for example, if income is received at a faster rate than expenditure is incurred or if grant payments are made to the Council in advance of the expenditure being incurred to which they relate. This is not a permanent state of affairs and the extent to which it will occur and, therefore, the amounts available at any time cannot be predicted.

Prudent financial management dictates that these temporary surpluses should be invested or used to redeem temporary loans if any are outstanding. Such surpluses may be placed in short term deposit accounts and current accounts, or, where the size of the surplus warrants, short term investments will be made in the market.

Capital receipts which arise during the year, as a result of asset sales, will be held in the Capital Receipts Account pending use until the monies are invested. When useable receipts are required to finance capital expenditure, or for any other purpose, the amount will be disinvested and utilised.

Period of Investment

All temporary surplus funds will be invested on a short term basis in order that they will be available for use as and when required. This requirement has been recognised in the calculation of the Prudential Indicator relating to total principal sums invested for periods longer than 364 days set out earlier.

Return on Investment

The aim will be to obtain the maximum rate of return which is available at the time the investment is made with an external body. This must, however, be consistent with the safeguarding of the Council's capital. At all times the risk to the Council will be minimised.

5.4 Current Treasury Management Advisors-view on Interest Rates

Part of the service provided by the Council's treasury management advisors is to assist the Council in the formulation of a view on interest rates; the following gives their view of the Bank of England base rate for financial year ends:

- 31st March 2016 – 1.00%
- 31st March 2017 – 1.50%
- 31st March 2018 – 2.50%

There are negative risks to these forecasts (i.e. increases in Bank Rate occur later) if economic growth weakens. However, should the pace of growth quicken, there could be benefits.

The Council's treasury management advisors suggested budgeted investment earnings rates, for returns on investments placed for periods up to 100 days, during each financial year for the next three years are as follows:

- 2015/16 – 0.90%
- 2016/17 – 1.50%
- 2017/18 – 2.00%

ANNEX B

Counterparty Listing Criteria

The Council uses the creditworthiness service provided by the Council's treasury management advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard and 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 (CDS) 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, credit outlooks in a weighted scoring system for 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 duration for investments and are therefore referred to as durational bands. The Council will therefore use counterparties within the following durational bands:

- Yellow (5 years);
- 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 creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue superiority to just one agency's ratings. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the advisor's 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 (where applicable) against the iTraxx benchmark and other market data on a weekly basis. 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 the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support. The Council will also consider using other Local Authorities when making fixed investments.

Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

Counterparty Limits

In accordance with Treasury Management Practice (TMP) 4 – Approved Instruments, Methods and Techniques, a £7,000,000 counterparty limit will be used during 2015/16. This limit will not apply to the Government's Debt Management Account Deposit Facility offered by the Debt Management Office.

ANNEX C

Minimum Revenue Provision Policy

1.0 Background

1.1 In instances whereby Local Authorities have a positive Capital Financing Requirement, they are required to set aside a minimum amount from revenue to fund the repayment of debt, this is known as the Minimum Revenue Provision. This means that the Council would be required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement) through a revenue charge (the Minimum Revenue Provision).

Department of Communities and Local Government (DCLG) Regulations and Guidance have been issued which require the Full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, who can make their own choice, so long as there is a prudent provision.

2.0 Minimum Revenue Provision Policy in respect of Finance Leases

2.1 The introduction of International Financial Reporting Standards in 2011/12 resulted in some leases being reclassified as finance leases instead of operating leases. This resulted in a positive Capital Financing Requirement and as such the need to set aside a Minimum Revenue provision.

In accordance with the revised DCLG Guidance this Council will set aside an annual MRP equal to the amount of the lease that has been taken to the Balance Sheet to reduce the finance lease liability i.e. the principal amount of the finance lease. This approach will produce an MRP charge which is the same as Option 3 in the guidance (Asset Life Method – annuity method). The revised guidance aims to ensure that authorities are in the same position as if the change in accounting standards had not occurred.

3.0 Minimum Revenue Provision Policy – Other Capital Expenditure

3.1 Capital Financing Requirement (CFR)

The Council's Capital Financing Requirement is currently negative. This means that there is no requirement to set aside a MRP for the redemption of external debt. The Prudential Indicator for the CFR, shown at 2.2 in the Treasury Management Strategy, indicates that the CFR will become positive within the period covered by the Strategy. This is based on the assumption that there will be a general overall increase in expected capital expenditure, which cannot be funded from revenue or capital resources. Accordingly, the Council needs to determine the option it will employ to make the necessary MRP in respect of the amount borrowed, if this occurs.

3.2 Option for making Minimum Revenue Provision.

The most appropriate of the four options permitted by the Regulations is Option 3, the Asset Life Method, within which there are two further options, an equal instalment method and an annuity method of which the equal instalment method would be the more appropriate. This provides for the Council to make revenue provision over the estimated life of the asset for which the borrowing is undertaken, in effect the charge will be the amount borrowed in respect of the asset divided by the number of years of estimated life of the asset. It will result in an equal annual amount to be charged as MRP. Accordingly, if any borrowing does take place, this method of calculation of MRP will be used. It should be noted that MRP does not commence until the year following that in which the asset concerned became operational.

ANNEX D

Treasury Management – Glossary of Terms

- **Basis Points –** there are 100 basis points to 1%.
- **CDS –** 'Credit Default Swap' is an additional assessment of credit worthiness by providing a risk analysis of changes in credit quality as perceived by the market.
- **CIPFA –** the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.
- **Counterparty –** an institution with whom a borrowing or investment transaction is made.
- **Credit Rating –** is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. The main rating agencies are Fitch. Standard and Poor's and Moody's.
- **Capital Adjustment Account –** an account that reflects the difference between the costs of fixed assets consumed and the capital financing set aside to pay for them.
- **DCLG –** Department for Communities and Local Government.
- **Deferred Capital Receipts –** these represent amounts derived from the sale of assets which will be received in instalments over agreed periods of time.
- **Depreciation –** the measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.
- **DMADF and DMO –** the DMADF is the 'Debt Management Account Deposit Facility' which is a highly secure fixed term deposit account with the Debt Management Office, part of Her Majesty's Treasury.
- **Forward Commitments** - agreeing in advance to place an investment with a borrower at a future specified date at an agreed interest rate.
- **GILTS –** the name given to bonds issued by the UK Government. Gilts are issued bearing interest at a specified rate, however, they are traded on the markets like shares and their value rises of falls accordingly. The 'yield' on a gilt is the interest paid divided by the market value of that gilt.
- **IFRS (International Financial Reporting Standards) –** International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.
- **Impairment Charges –** a reduction in the value of a fixed asset below its carrying amount on the balance sheet.
- **Intangible Assets –** non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights. Specifically purchased software licenses are included in this category of asset.

- **iTraxx Benchmark –** iTraxx is the name of a credit default swap index used to inform credit risks. Credit default swap indexes are benchmarks for protecting investors against default, and traders use them to speculate on changes in credit quality.

- **Leasing** - a lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.

- **Liquidity –** relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.

- **Money Market Funds (MMF) –** Money Market Funds are investment funds that are invested by a Fund Manager in a wide range of money market instruments. MMF's are monitored by the official ratings agencies and due to many requirements that need to be fulfilled; the funds usually receive the highest quality rating (AAA) so provide minimal risk. They are very flexible and can be withdrawn in the same way as any other call deposit.

- **MRP –** the Minimum Revenue Provision represents the revenue charge for the repayment of debt.

- **PWLB –** the Public Works Loan Board is a statutory board that is run within the UK Debt Management Office (DMO), its function is to lend money to Local Authorities and other prescribed bodies.

- **Revaluation Reserve –** this reserve records unrealised net gains from asset revaluations made after 1 April 2007.

- **Section 151 Officer –** it is a legal requirement that councils must appoint a named accountant to give them financial advice. The accountant in question is usually a chief finance officer, director of finance or treasurer.

- **Supranational Bonds –** bonds issued by institutions such as the European Investment Bank.