

Executive

9 February 2017

**Report of the Director of Customer and Corporate Services
Portfolio of the Executive Member for Finance and Performance**

**Treasury Management Strategy Statement and Prudential Indicators for
2017/18 to 2021/22**

Report Summary

1. The purpose of this report is to seek the recommendation of Executive to Full Council for the approval of the treasury management strategy and prudential indicators for the 2017/18 financial year.

Recommendations

2. Executive are asked to recommend that Council approve:
 - The proposed Treasury Management Strategy for 2017/18 including the annual investment strategy and the minimum revenue provision policy statement;
 - The prudential indicators for 2017/18 to 2021/22 in the main body of the report;
 - The specified and non-specified investments schedule (annex B)
 - The scheme of delegation and the role of the section 151 officer (annex D)

Reason: To enable the continued effective operation of the treasury management function and ensure that all Council borrowing is prudent, affordable and sustainable.

Background

3. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first function 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 low risk appetite, providing adequate liquidity initially before considering investment return.
4. The second main function of the treasury management service is funding of the Council's capital programme. The capital programme provides a guide to

the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5. CIPFA (Chartered Institute of Public Finance and Accountancy) defines treasury management 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.”

Reporting requirements

6. 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 three reports are:
 - **Treasury management strategy statement and prudential indicators report** (this report) – which covers the capital plans including prudential indicators, the minimum revenue provision policy, the treasury management strategy and the annual investment strategy;
 - **Mid year treasury management report** – updates members as to whether the treasury activities are meeting the strategy, whether any policies require revision, amending prudential indicators if necessary;
 - **Annual treasury report** – updates on treasury activity/ operations for the year and compares actual prudential indicators with estimates in the strategy.
7. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This scrutiny role is undertaken by Audit & Governance Committee.
8. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers is also periodically reviewed.

Treasury management strategy for 2017/18

9. The treasury management strategy for 2017/18 covers two main areas:

Capital issues

- the capital programme and prudential indicators;
- minimum revenue provision (MRP) policy.

Treasury management issues

- prudential indicators which will limit the treasury management risk and activities of the Council;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- creditworthiness policy;
- investment strategy;
- policy on use of external service providers;
- scheme of delegation and the role of the S151 officer

10. These elements cover the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

The capital prudential indicators 2017/18 – 2021/22

11. The Council's capital expenditure plans are the key driver of treasury management activity and are the subject of a separate report on this agenda. The output of the capital programme is reflected in the capital prudential indicators, which are designed to assist member's overview of the council's capital programme to ensure that the capital expenditure plans are affordable, sustainable and prudent.

12. The capital prudential indicators along with the treasury management prudential indicators are included throughout the report:

- PI 1: Capital expenditure
- PI 2: Capital financing requirement
- PI 3: Ratio of financing cost to net revenue stream
- PI 4a&b: Incremental impact of capital investment decisions on council tax and housing rent
- PI 5: External debt

- PI 6a: Authorised limit for external debt
- PI 6b: Operational boundary for external debt
- PI 6c: Housing revenue account (HRA) debt limit
- PI 7: Interest rate exposure for fixed and variable rated debt
- PI 8: Maturity structure of debt
- PI 9: Surplus funds invested >364 days

13. Prudential indicator 1 - capital expenditure. This prudential Indicator is a summary of the Council's capital expenditure plans forming part of this budget cycle. 2016/17 is included as a comparator. Detailed information on the individual schemes is provided in the capital monitor 3 and capital strategy report.

| Capital Expenditure | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General fund (Non HRA) | 38.2 | 97.8 | 21.7 | 15.9 | 15.6 | 10.7 |
| Housing revenue account | 14.2 | 19.4 | 8.6 | 8.6 | 8.2 | 8.3 |
| Total | 52.4 | 117.3 | 30.3 | 24.5 | 23.8 | 19.0 |

Table 1: Capital expenditure

14. Table 1 details the capital expenditure of the Council, based on the capital programme strategy report, excluding other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. There are no new PFI schemes forecast to be entered into in 2017/18.

15. Prudential indicator 2 - the capital financing requirement (CFR) (Council's borrowing need); 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. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

16. The CFR does not increase indefinitely, because the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life. Therefore, the CFR is reduced by this provision to repay debt.

17. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's overall borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council currently has a limit to cover such schemes of £20m included within the CFR. As set out in paragraph 40 table 7 the projected level of debt is significantly below the CFR over the 5 year period.

18. Table 2 below, shows the capital financing requirement, excluding other long term liabilities:

| Capital Financing Requirement | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Non housing CFR | 188.6 | 213.2 | 212.3 | 211.8 | 210.1 | 208.8 |
| HRA pre settlement | 18.8 | 18.8 | 18.8 | 18.8 | 18.8 | 18.8 |
| HRA settlement | 121.5 | 121.5 | 121.5 | 121.5 | 121.5 | 121.5 |
| HRA CFR | 140.3 | 140.3 | 140.3 | 140.3 | 140.3 | 140.3 |
| Total CFR | 328.9 | 353.5 | 352.6 | 352.1 | 350.4 | 349.1 |

Table 2: Capital financing requirement (CFR)

Minimum revenue provision (MRP) policy statement

19. The Council is required to pay off an element of the accumulated general fund (non-HRA) capital expenditure each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
20. CLG regulations require full Council to approve an MRP statement in advance of each year. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period that is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. Councils are also able to adopt local approaches, provided that their MRP is still deemed to be prudent.
21. It is proposed that the Council amends its MRP policy for 2017/18 in relation to supported borrowing, or pre 2008 debt. This element of MRP provision is currently calculated using a 4% charge on a reducing balance each year.
22. The change proposed is to reduce the annual percentage MRP charge from 4% to 3% and apply the new contribution rate on a fixed, straight line basis. This is, in effect, the asset life method with an average of 33 years being applied based on an overall average of the asset base.

23. This approach would have the effect of reducing the debt liability to a fixed life of 33 years and would be considered a more prudent provision than the current approach, as it introduces a more certain period for spreading the cost of this element of debt liability. This is in line with one of the main MRP guidance principles, whilst achieving an overall faster level of debt redemption over the equivalent period as would have arisen under the 4% reducing balance approach. It also spreads the cost more evenly amongst taxpayers that will benefit from the capital expenditure.
24. Full Council is requested to approve the following MRP statement: For capital expenditure incurred before 1 April 2008 or which in the future will be supported capital expenditure, the MRP policy will be:
- **Asset life method (local approach)** - MRP will be based on the average life of the overall asset base of 33 years. This will be calculated as 3% on a fixed, straight line basis.
25. This provides for a 3% reduction in the borrowing need (CFR) each year.
26. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be
- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
27. This option provides for a reduction in the borrowing need over approximately the asset's life. The asset life is an absolute maximum and wherever possible the debt should be repaid over a shorter period. Estimated asset life periods will be determined under delegated powers. It should be noted that with all debts, the longer the repayment period the higher the amount of interest incurred over the period of the loan accordingly, it is deemed as prudent to reduce the period over which the repayments are made.
28. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).
29. Repayments included in annual PFI or finance leases are also applied as MRP.

Affordability prudential indicators

30. The prudential indicators mentioned so far in the report cover the overall capital programme and the control of borrowing through the capital financing requirement (CFR), but within this framework prudential indicators

are required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital programme investment plans on the Council's overall finances.

31. Prudential indicator 3 - 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) and compares it to the Council's net revenue stream.

| Financing Costs | 2016/17 Estimate % | 2017/18 Estimate % | 2018/19 Estimate % | 2019/20 Estimate % | 2020/21 Estimate % | 2021/22 Estimate % |
|-----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Non-HRA | 11.74 | 12.01 | 12.96 | 12.04 | 11.86 | 11.82 |
| HRA | 13.14 | 13.14 | 13.14 | 13.14 | 13.14 | 13.14 |

Table 3: Ratio of financing costs to net revenue stream

32. The estimates of financing costs include current commitments and the proposals in the capital budget report also on this agenda.

33. Prudential indicator 4a - incremental impact of capital investment decisions on council tax.

This indicator identifies the revenue costs associated with proposed changes to the five-year capital programme recommended in the budget report compared to existing approved commitments and plans. Assumptions are based on the budget figures as set out in the capital and financial strategy reports on this agenda.

| Incremental Impact on Council tax – band D | 2016/17 Estimate £ | 2017/18 Estimate £ | 2018/19 Estimate £ | 2019/20 Estimate £ | 2020/21 Estimate £ | 2021/22 Estimate £ |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Incremental impact | 14.49 | 24.35 | 31.50 | 9.90 | 9.24 | 7.98 |

Table 4 - Incremental impact of capital investment decisions on the band D council tax

34. Prudential indicator 4b - Incremental impact of capital investment decisions on housing rent levels.

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the capital strategy report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator is zero as the housing rent levels are set by Government and therefore not directly impacted by the Council's capital plans.

| Incremental Impact | 2015/16 Estimate £ | 2016/17 Estimate £ | 2017/18 Estimate £ | 2018/19 Estimate £ | 2019/20 Estimate £ | 2020/21 Estimate £ |
|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Weekly Housing Rents | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Table 5 - Incremental impact of capital investment decisions on housing rent levels

35. The capital prudential indicators set out above ensure that the Council's capital expenditure plans are affordable, sustainable and prudent. The treasury management function ensures that cash is available to meet the Council's requirements in accordance with the Local Government Act 2003 and relevant professional codes.

36. The treasury management function involves both the forecasting of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the prudential / treasury indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

37. The Council's treasury portfolio position at 30th January 2017 is detailed below in table 6:

| Institution Type | Principal | Average Rate |
|---|------------------|---------------------|
| <u>Public Works Loan Board (PWLB)</u> – Money borrowed from the Debt Mgt Office (Treasury Agency) | £240.1m | 3.63% |
| <u>Market Loans</u> | | |
| Club loan – A loan taken in conjunction with 2 other authorities | £10.0m | 7.15% |
| LOBO Loans (2) – Lender Option Borrower Option | £10.0m | 3.74% |
| Total Gross Borrowing (GF & HRA) | £260.1m | 3.77% |
| Total Investments | £115.9m | 0.50% |

Table 6: Current position at 30th January 2017

38. The Council had £260.1m of fixed interest rate debt, of which £140.3m was HRA and £119.8m general fund. The cash balance available for investment was £115.9m. This relatively high level of cash balances is due to timing

issues with some significant receipts that are received in advance of expenditure being incurred, as well as holding specific balances to meet an identified need or risk. It is expected that the average balance will start to reduce in coming years.

39. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well defined limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. One of these is that the Council needs to ensure that its total gross debt does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows the flexibility to borrow in advance of need but ensures that borrowing is not undertaken for revenue purposes.

40. **Prudential indicator 5 – external debt** Table 7 shows that the estimated gross debt position of the Council does not exceed the underlying capital borrowing need. The Director of Customer & Corporate Services (s151 officer) confirms that the Council complies with this prudential indicator and does not envisage difficulties for the future.

| | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Gross projected debt | 275.1 | 290.1 | 285.1 | 284.1 | 284.1 | 280.1 |
| Total CFR | 328.9 | 353.5 | 352.6 | 352.1 | 350.4 | 349.1 |
| Under/(over) borrowed | Under | Under | Under | Under | Under | Under |

Table 7: External debt < capital financing requirement

41. Table 7 shows a gap between actual borrowing and the CFR (driven by the use of internal funds to finance capital expenditure). The decision as to whether to continue to do this will take into account current assumptions on borrowing rates and levels of internal reserves and balances held by the Council. The figures above show an increase in the gap between CFR and external debt over the 5 year period based on current estimates, however this will be determined by the s151 officer and the figure above is a current broad assumption. Actual borrowing will be determined by the circumstances that prevail at the time on borrowing rates and levels of cash balances.

Prudential indicators: limits on authority to borrow

42. **Prudential indicator 6A – authorised borrowing limit** - It is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the “authorised borrowing limit”, and represents a control on the maximum level of debt. This is a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

| Authorised Limit | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Borrowing | 275.1 | 290.1 | 285.1 | 284.1 | 284.1 | 280.1 |
| Operational Boundary | 355.3 | 363.5 | 362.7 | 362.1 | 360.4 | 359.2 |
| Other long term liabilities | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| Total | 385.3 | 393.5 | 392.7 | 392.1 | 390.4 | 389.2 |

Table 8: Authorised borrowing limit

43. **Prudential indicator 6B – operational boundary.** In addition to the “authorised borrowing limit”, the operational boundary is the maximum level of debt allowed for on an ongoing operational purpose. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

| Operational Boundary | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Borrowing | 275.1 | 290.1 | 285.1 | 284.1 | 284.1 | 280.1 |
| Other long term liabilities | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Total | 355.3 | 363.5 | 362.7 | 362.1 | 360.4 | 359.2 |

Table 9: Operational boundary

44. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime, known as the HRA debt limit or debt cap. This limit is currently:

| HRA Debt Limit | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Total HRA | 145.97 | 145.97 | 145.97 | 145.97 | 145.97 | 145.97 |

Table 10: HRA debt limit

Prospects for interest rates

45. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. To facilitate treasury management officers in making informed investment and borrowing decisions, the Council contracts Capita Asset Services as its treasury adviser. Part of their service is to assist the Council in formulating a view on interest rates. Table 11 below gives Capita's central view:

| | Bank rate % | PWLB borrowing rates % (including certainty rate adjustment) | | |
|----------|----------------|---|---------|---------|
| | | 5 year | 25 year | 50 year |
| Dec 2016 | 0.25 | 1.60 | 2.90 | 2.70 |
| Mar 2017 | 0.25 | 1.60 | 2.90 | 2.70 |
| Jun 2017 | 0.25 | 1.60 | 2.90 | 2.70 |
| Sep 2017 | 0.25 | 1.60 | 2.90 | 2.70 |
| Dec 2017 | 0.25 | 1.60 | 3.00 | 2.80 |
| Mar 2018 | 0.25 | 1.70 | 3.00 | 2.80 |
| Jun 2018 | 0.25 | 1.70 | 3.00 | 2.80 |
| Sep 2018 | 0.25 | 1.70 | 3.10 | 2.90 |
| Dec 2018 | 0.25 | 1.80 | 3.10 | 2.90 |
| Mar 2019 | 0.25 | 1.80 | 3.20 | 3.00 |
| Jun 2019 | 0.50 | 1.90 | 3.20 | 3.00 |
| Sep 2019 | 0.50 | 1.90 | 3.30 | 3.10 |
| Dec 2019 | 0.75 | 2.00 | 3.30 | 3.10 |
| Mar 2020 | 0.75 | 2.00 | 3.40 | 3.20 |

Table 11 – Capita's interest rate forecast

46. The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

47. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.
48. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
49. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
50. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt

crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

51. The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

52. Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16;
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

53. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

54. Investment returns are likely to remain relatively low during 2017/18 and beyond. Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid August when they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a “hard Brexit”, the fall in the value of sterling and an increase in inflation expectations. 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 years when the Council will not be able to avoid new borrowing to finance capital expenditure.
55. There will remain a cost of carry to any new borrowing causing an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Borrowing strategy

56. The overall 5 year capital programme could require additional net borrowing of £7m over the next 5 years. However, we do not currently envisage taking any new borrowing within the next 2 to 3 years due to our strong positive cash flow position. As cash flow can change due to specific transactions, this will need to be kept under review. The CFR (the Council's actual need to borrow) does not necessarily increase by this same amount as a minimum amount of revenue provision is set aside every year in accordance with statutory requirement and this therefore reduces the actual amount that is required to be borrowed.

57. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecast. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the capital financing requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent as investment returns are low and counterparty risk is relatively high.
58. It is therefore beneficial to have a borrowing strategy where consideration is given to taking some longer term borrowing if favourable rates arise and also use some cash reserves. External borrowing will be considered throughout the financial year when interest rates seem most favourable. A target interest rate is 4.50%. This will enable borrowing to be taken through the year at different time periods. Consideration will also be given to the maturity profile of the debt portfolio so the Council is not exposed to the concentration of debt being in any one year.
59. Against this background and the risks within the economic forecast, caution will be adopted with the treasury operations. The Director of Customer and Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
60. The HRA strategy for borrowing will be the same as the borrowing strategy described above for the whole Council. The HRA Business Plan will guide and influence the overall HRA borrowing strategy.
61. All decisions will be reported to the appropriate decision making body (Executive and Audit and Governance Committee) at the next available opportunity.

Prudential indicators – limits on borrowing activity

62. There are three debt related prudential indicators. The purpose of these are to restrain the activity of the treasury function within certain limits,

thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates

| Interest rate exposure | 2016/17 Estimate % | 2017/18 Estimate % | 2018/19 Estimate % | 2019/20 Estimate % | 2020/21 Estimate % | 2021/22 Estimate % |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Upper | Upper | Upper | Upper | Upper | Upper |
| Limits on fixed interest rates based on net debt | 127 | 114 | 108 | 108 | 108 | 108 |
| Limits on variable interest rates based on net debt | -27 | -14 | -8 | -8 | -8 | -8 |

Table 12: Limits on Interest rate exposure

- Maturity structure of borrowing. This gross limit is set to reduce the Council's exposure to large fixed rate sums falling due for refinancing in a confined number of years.

| Maturity structure of borrowing 2016/17 | | | | |
|---|-------|-------|------|----------|
| | Lower | Upper | Debt | Debt (£) |
| Under 12 months | 0% | 30% | 4% | £10.0m |
| 12 months to 2 years | 0% | 30% | 4% | £10.0m |
| 2 years to 5 years | 0% | 40% | 11% | £28.0m |
| 5 years to 10 years | 0% | 40% | 20% | £51.4m |
| 10 years and above | 30% | 90% | 61% | £160.7m |
| Total Borrowing | | | 100% | £260.1m |

Table 13: Maturity structure of borrowing

Policy on borrowing in advance of need

63. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. Any decision to borrow in advance of need is considered carefully to ensure that value for money can be demonstrated, it is affordable, sustainable & prudent, that the treasury management revenue budget can support the borrowing finance costs in the longer term and that the Council can ensure the security of such funds if invested.

64. Borrowing in advance will be made within the constraints of the CIPFA Prudential Code that ensures total gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the following two financial years.

65. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

66. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

67. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

68. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

69. All rescheduling will be reported to the Executive / Audit & Governance Committee at the earliest meeting following its action.

Municipal Bond Agency

70. The establishment of the UK Municipal Bonds Agency was led by the Local Government Association (LGA) following the 2010 Autumn Statement which resulted in higher PWLB rates, greatly increasing the cost of new borrowing and refinancing. The purpose of the Agency is to deliver cheaper capital finance to local authorities. It will do so via periodic bond issues and by facilitating greater inter-authority lending. The Agency is wholly owned by 56 local authorities and the LGA. The Council is a shareholder in the Agency with a total investment of £40k and will make use of this new source of borrowing as and when appropriate.

Annual investment strategy

Investment policy

71. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
72. In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
73. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
74. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
75. Investment instruments identified for use in the financial year are listed in annex B under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.
76. The Council continues to take a prudent approach to investing funds as set out in the creditworthiness policy below.

Creditworthiness policy

77. This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modeling approach with 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
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

78. This approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS (credit default swap) spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments. 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 part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

**The yellow category is for UK Government debt or its equivalent (government backed securities) and AAA rated funds*

79. The Capita Asset Services creditworthiness model uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weighting to just one agency's ratings.

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

81. All credit ratings are monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita'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 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 Councils lending list.

82. Although sole reliance is not placed on the use of this external service, as the Council uses market data and market information, information on government support for banks and the credit ratings of that supporting government, the suitability of each counterparty is based heavily on advice from Capita.
83. Whilst the Council has determined that it will not limit investments to UK banks, it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment strategy

84. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
85. For 2017/18 the average balance is forecast to be between a low point of £35m and high point of £95m. The matrix stipulates use of level 6 (maximum cash balance of between £50m - £60m, note this is the highest matrix Treasury officers feel is prudent to use) that results in a limit of £8m for counterparties with a durational band of 100 days and £15m for counterparties with a durational band of longer than 100 days.
86. Bank rate is forecast to remain unchanged at 0.25% until quarter 2 2019 and not rise above 0.75% by quarter 1 2020. Bank rate forecasts for financial year ends (March) are:

| | |
|---------|-------|
| 2017/18 | 0.25% |
| 2018/19 | 0.25% |
| 2019/20 | 0.50% |

87. For its cash flow generated balances, the Council will seek to utilise a combination of business reserve accounts (call accounts), short notice accounts, short dated fixed term deposits and money market funds. In addition, the Council will look for investment opportunities in longer dated term deals with specific counterparties that offer enhanced rates for local authority investment. All investment will be undertaken in accordance with the creditworthiness policy set out above.

88. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

| | |
|---------|-------|
| 2016/17 | 0.25% |
| 2017/18 | 0.25% |
| 2018/19 | 0.25% |
| 2019/20 | 0.50% |

89. Therefore for 2017/18, the Council has budgeted for an investment return target of 0.25% on investments placed during the financial year and uses the 7 day LIBID rate as a benchmark for the rate of return on investment.

90. **Prudential indicator 9** - total principal investment funds invested for greater than 364 days. This limit is set with regards to the Council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £15m.

| | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Maximum limit per year for Investments > 364 days | 0.00 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |

Table 14: Maturity structure of borrowing

91. At the end of the financial year, the Council will report on its investment activity as part of its annual treasury report. It should be noted that the Investment policy, creditworthiness policy and investment strategy are applicable to the Council's overall surplus funds and are also applicable to the HRA.

Policy on the use of external service providers

92. The Council uses Capita Asset Services as its external treasury management advisors.

93. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

94. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment

and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of delegation and the role of the section 151 officer

95. Those charged with governance are responsible for the treasury management activities and are clearly defined within the organisation. Attached at Annex D are the treasury management scheme of delegation and also the treasury management role of the section 151 officer (Director of Customer & Corporate Services).

Consultation and options

96. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are delegated by the Council to the Director of Customer & Corporate Services, who operates within the framework set out in this strategy and through the treasury management policies and practices. In order to inform sound treasury management operations the Council works with its treasury management advisers, Capita Asset Services. Capita Asset Services offers the Council a comprehensive information and advisory service that facilitates the Council in maximising its investment returns and minimise the costs of its debts.

97. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.

98. At a strategic level, there are a number of treasury management options available that depend on the Council's stance on interest rate movements. The report sets out the Council's stance and recommends the setting of key trigger points for borrowing and investing over the forthcoming financial year.

Council Plan

99. The treasury management strategy statement and prudential indicators are aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the Council's funds. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council Plan.

Implications

Financial

100. The revenue implications of the treasury strategy are set out in the revenue budget report also on this agenda. The capital implications that drive the CFR are set out in the capital programme budget report.

Human Resources (HR)

101. There are no HR implications as a result of this report

Equalities

102. There are no equalities implications as a result of this report

Legal Implications

103. Treasury management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other implications

104. There are no crime and disorder, information technology or property implications as a result of this report

Risk management

105. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

| | | | |
|---|--|---|------------------------|
| Report authors: | Chief officer responsible for the report: | | |
| Debbie Mitchell Finance & Procurement Manager Tel: 01904 554161 | Ian Floyd Director of Customer & Corporate Services | | |
| Sarah Kirby Principal Accountant Tel 01904 551635 | Report Approved | x | Date 31/01/2017 |
| | | | |
| Wards Affected: Not Applicable | | | |

For further information please contact the author of the report

Background papers

none

Annexes

Annex A – Interest rate forecast

Annex B – Specified and non-specified investments categories schedule

Annex C – Approved countries for investments

Annex D – Scheme of delegation and the role of the section 151 officer

Annex A - Interest Rate Forecast 2016-2020

| Capita Asset Services Interest Rate View | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Dec-19 | Mar-20 |
| Bank Rate View | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.75% | 0.75% |
| 3 Month LIBID | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.40% | 0.50% | 0.60% | 0.80% | 0.90% |
| 6 Month LIBID | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.50% | 0.60% | 0.70% | 0.90% | 1.00% |
| 12 Month LIBID | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.80% | 0.80% | 0.90% | 1.00% | 1.10% | 1.30% | 1.40% |
| 5yr PWLB Rate | 1.60% | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 2.00% | 2.00% |
| 10yr PWLB Rate | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% |
| 25yr PWLB Rate | 2.90% | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% |
| 50yr PWLB Rate | 2.70% | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.20% |
| Bank Rate | | | | | | | | | | | | | |
| Capita Asset Services | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.75% | 0.75% |
| Capital Economics | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.75% |
| 5yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 1.60% | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 2.00% | 2.00% |
| Capital Economics | 1.60% | 1.70% | 1.80% | 1.90% | 1.95% | 2.05% | 2.20% | 2.30% | 2.40% | 2.60% | 2.80% | 3.20% | 3.30% |
| 10yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% |
| Capital Economics | 2.30% | 2.35% | 2.45% | 2.50% | 2.55% | 2.60% | 2.70% | 2.70% | 2.80% | 3.00% | 3.20% | 3.60% | 3.70% |
| 25yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 2.90% | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% |
| Capital Economics | 2.90% | 3.00% | 3.05% | 3.10% | 3.15% | 3.25% | 3.30% | 3.35% | 3.45% | 3.55% | 3.75% | 4.15% | 4.35% |
| 50yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 2.70% | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.20% |
| Capital Economics | 2.80% | 2.85% | 2.95% | 3.00% | 3.05% | 3.10% | 3.15% | 3.20% | 3.30% | 3.50% | 3.70% | 4.10% | 4.20% |

Specified and non-specified investments categories

Annex B

A variety of investment instruments will be used, subject to the credit quality of the institution, to place the Council's surplus funds. The criteria, time limits and monetary limits applying to institutions or investment vehicles are listed in the tables below.

Investments are split into two categories of specified investments and non-specified Investments. Specified investments are relatively high security and high liquidity investments, which must be sterling denominated and with a maturity of no more than a year. Non-specified investments are those investments with a maturity period of greater than one year or are still regarded as prudent but may require more detailed scrutiny and assessment procedures.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, treasury officers will review the accounting implications of new transactions before they are undertaken.

Specified investments:

| Counterparty type | Minimum 'high' credit criteria/colour band | Maximum investment limit per counterparty institution | Maximum maturity period |
|--|--|---|--------------------------------|
| DMADF – UK Government | UK sovereign rating | £15m | 1 year |
| UK Government Treasury Bills | UK sovereign rating | £15m | 6 months |
| UK Government Gilts | UK sovereign rating | £15m | 1 year |
| Term deposits - local authorities | UK sovereign rating | £15m | 1 year |
| Part-nationalised UK Banks | Blue | £15m | 1 year |
| Term Deposits - UK Banks and Building Societies | Orange Red Green | £15m £15m £8m | 1 year 6 months 100 days |
| Term Deposits - Non-UK Banks (with a sovereign rating of AA-) | Orange | £15m | 1 year |
| Certificates of Deposits issued by Banks and Building Societies | Orange/Blue | £15m | 1 year |
| Collective investment schemes structured as open ended investment companies (OEICs) as below:- | | | |

| | | | |
|-------------------------------|-----|------|--------|
| 1. Government liquidity Funds | AAA | £15m | Liquid |
| 2. Money Market Funds | AAA | £15m | Liquid |
| 3. Enhanced Cash Funds | AAA | £15m | Liquid |
| 4. Bond Funds | AAA | £15m | Liquid |

NON-SPECIFIED INVESTMENTS:

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

| Counterparty type | Minimum credit criteria | Maximum investment limit per counterparty institution | Maximum Maturity Period |
|--|--------------------------------|---|--|
| Fixed term deposits with variable rate and variable maturities: - Structured deposits | Orange Blue Red Green | £15m £15m £15m £8m | 1 Year 1 year 6 months 100 days |
| Certificates of Deposits issued by Banks and Building Societies | Red Green | £15m £8m | 6 months 100 days |
| Floating Rate Notes | Long-term AAA | £15m | 1 year |
| Property Funds: <i>the use of these investments may constitute capital expenditure</i> | AAA-rated | £15m | 5 years |

2. Maturities in excess of 1 year

| | | | |
|--|---------------------|--------------|--------------------|
| Term Deposits– local authorities | UK Sovereign Rating | £15m | > 1 year |
| Term deposits – Banks and Building Societies | Yellow Purple | £15m £15m | 5 years 2 years |
| Certificates of Deposits issued by Banks and Building Societies not covered by UK Government guarantee | Yellow Purple | £15m £15m | 5 years 2 years |
| UK Government Gilts | UK sovereign rating | £15m | > 1 year |
| Collective investment schemes structured as open ended investment companies (OEICs) as below:- | | | |

| | | | |
|---------------|---------------|------|----------|
| 1. Bond Funds | Long-term AAA | £15m | > 1 year |
| 2. Gilt funds | Long-term AAA | £15m | > 1 year |

Approved countries for investments

Annex C

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Finland

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

(i) Executive / Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy and annual outturn

(ii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities

(iii) Audit & Governance Committee

- receiving and reviewing reports on treasury management policies, practices and activities
- reviewing the annual strategy, annual outturn and mid year review.

(iv) Director of Customer and Corporate Services (section 151 officer)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the Council to the Director of Customer & Corporate Services, who operates within the framework set out in this strategy and through the treasury management policies and practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations.

The treasury management role of the section 151 officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- all operational decisions delegated by the Council to the Director of Customer & Corporate Services (s151 officer), who operates within the framework set out in this strategy and through the treasury management policies and practices
- 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.