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GA.44 15/16	
Governance & Audit Committee	
19 January 2016	

Subject: Draft Treasury Management Strategy 2016/17

Report by:	Director of Resources
Contact Officer:	Tracey Bircumshaw, Financial Services Manager 01427 676560
Purpose / Summary:	To scrutinise the Treasury Management Strategy and recommend its inclusion within the Medium Term Financial Plan.

RECOMMENDATIONS:

1. **To scrutinise and recommend to Council the inclusion of the Treasury Management Strategy in the Medium Term Financial Plan**
2. **To acknowledge the Treasury Management Practices**

IMPLICATIONS

Legal:

The Local Government and Finance Act 2003 and the Treasury Management Code of Practice and Sectorial Guidance include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

Financial: FIN/121/16 None from this report

Staffing :

None arising from this report.

Equality and Diversity including Human Rights :

*NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.*

Risk Assessment :

Interest Rate Risk: A rise in interest rates may lead to capital investment loss due to the inverse price and yield relationship and vice versa.

Inflation Risk: Real returns can be eroded if inflation is expected to or rises during the term of the investment, therefore capital value may be reduced

Re-Investment Risk: the effect of changing interest rates on re-investment before maturity.

Credit Risk: The value of an investment can be affected by the credit quality/rating of the issuer.

Default Risk: Possibility that total principal may not be returned before maturity, or partially returned.

Risks associated with investing for longer periods, and in instruments where the values can go down as well as up, will require mitigation as there will be increased risk to the security and liquidity of investments.

Mitigation of these risks will be undertaken by defining the restrictions of time and maximum value of investment made and with appropriate financial appraisals being undertaken for each investment. Close monitoring of the investment performance will also be undertaken.

By putting these mitigations in place will result in a spread of risk throughout the portfolio.

Climate Related Risks and Opportunities :

None arising from this report.

Title and Location of any Background Papers used in the preparation of this report:

Treasury Management Code of Practice and Cross-Sectorial Guidance Notes 2011 All papers are located in the Financial Services section, Guildhall

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes		**No**	**x**

Key Decision:

Yes		**No**	**x**

1. Executive Summary

The Treasury Management Strategy has been developed to take into account our cashflow requirements, and our capital investment plans over the medium term.

The Councils Corporate Plan identifies the Corporate Objectives of the Council and which then informs investment requirements. The 2016/17 to 2020/21 Capital Programme therefore includes significant capital investment which will require resourcing from earmarked reserves, capital receipts, grant income, and borrowing.

Specifically the Commercial Strategy, the Asset Management Plan, Economic growth and housing regeneration, opportunities deliverable through Housing Zone status, will meet wider corporate objectives and deliver social benefits for the district, however, these require significant capital investment which will result in a borrowing need.

The borrowing strategy 2015/16 was based purely on borrowing for capital investments which would generate future revenue income streams, or capital receipts which could meet the costs of borrowing, however this is considered too limited, if resources were identified which could fund future borrowing then schemes which provide social and economic value could be considered for financing from borrowing. The Borrowing strategy has therefore been amended.

In addition the Minimum Revenue Provision Policy has been updated to include the option to utilise the annuity method for commercial / growth investments where future income streams will be generated.

Attached at Appendix 6 of the Treasury Mangement Strategy are the operational Treasury Management Practices which have been reviewed and approval sought.

The Treasury Management Strategy is presented at Appendix A, however, due to timing issues unfortunately it has not been able to include the final capital programme and consequential prudential indicators at this time. The completed documentation will be issued prior to the meeting and included in an updated bookmarked set of agenda papers.

The significant changes to the Treasury Management Strategy are detailed below;

3. **Background**

2.1 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 low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council'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 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.

CIPFA 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."*

2.2 **Treasury Management Strategy for 2016/17**

The strategy for 2016/17 (in its current state is attached at Appendix A) covers two main areas:

Capital issues

- the capital plans and the prudential indicators (figures will be input once the Capital Programme has been determined)

- **the minimum revenue provision (MRP) policy.**

Treasury management issues

- the current treasury position;

- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- **the borrowing strategy;**
- policy on borrowing in advance of need;
- debt rescheduling;
- **the investment strategy;**
- creditworthiness policy; and
- policy on use of external service providers.

3. The Minimum Revenue Provision (MRP) Policy

The MRP is a statutory amount of revenue which is required to be set aside to finance borrowing (effectively a principal repayment of borrowing).

Currently we have a policy which would apply the Equal instalment method, which effectively charges MRP in accordance with our depreciation policy over the asset life ie borrowing £10m for an asset which has a life of 50 years, will result in an annual MRP of £10m/50 years = £200,000 p.a. for 50 years. MRP is chargeable in the year after the asset becomes operational.

It is proposed that 2 new options are incorporated to the Statement;

Annuity Method - due to the prospect of borrowing for commercial and regeneration purposes where net income streams will grow as the customer base and business grows, the annuity method will result in lower MRP charges in the earlier years and which increase annually (similar to mortgage principal repayments) costs can be met as the customer base and income increases.

Loan Repayment as Proxy for MRP - Where borrowing is undertaken to support the provision of loans, it is proposed that the actual principal repayments received are utilised to repay borrowing, rather than an MRP being charged to revenue. Security on the loan will be assigned to ensure realisation of the principal should there be a default on the loan.

The proposed Policy is detailed below;

<u>Minimum revenue provision (MRP) policy statement</u>

The Council is required to set aside from revenue a prudent amount, to effectively repay capital expenditure funded from borrowing (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).

CLG regulations 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, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method – Equal Instalment**
  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)

- **Asset Life Method - Annuity Method**
  For commercial, regeneration or administrative projects, where revenue benefits are only realised in future years or increase in future years, and will be based on an appropriate PWLB rate.

- **Loan Principle repayment as proxy for MRP**
  The council considers that where borrowing has funded loan advances, the loan principle repaid as a capital receipt negates the requirement to set aside an annual MRP charge, or in the event of default the realisation of the security.

Repayment of principal included in finance leases are applied as MRP.

Should the Council consider any Capital Investment whereby a capital receipt would be realised within the short/medium term i.e. for Capital Investment where the asset is to be held for a set period, and a capital receipt is expected to be realised at the end of this period, then the requirement to aside a minimum revenue provision to repay the debt will be considered on a case by case basis and in such cases, and in agreement with the Auditor, MRP may not be applied subject to taking account of any risks, project profiles and revenue income streams.

4. The Borrowing Strategy

<u>Borrowing Strategy</u>

The Council is currently in an under-borrowed position. This means that the capital borrowing need (The Capital Financing Requirement), has not been fully funded with loan debt as under previous accounting regulations cash has been utilised to support capital expenditure of £1.065m. Due to changes in legislation and the introduction of the Prudential Code, this is now reflected as an accounting adjustment and this element will remain in the CFR indefinately.

Any borrowing undertaken is required to be prudent, affordable and sustainable.

Therefore any long term borrowing will only be undertaken if revenue income streams or capital receipts can be generated (ie for commercial investments) or when adequate resources are identified which can fund the ongoing cost of borrowing.

The strategy, will be to undertake borrowing with any of the appropriately approved institutions which will include.

- Public Works Loans Board
- Muncipal Bonds Agency
- Local Government Association Development (Housing only)

Borrowing will be undertaken at the best rates available, subject to terms and conditions being appropriate for its purpose.

Director of Resources 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 risk 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 the anticipated rate to us tapering of asset purchases, or in work 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 are still lower than they will be in the next few years.

Any decisions undertaken by the Director of Resources will be reported to the Policy and Resources Committee at the next available opportunity

The Investment Strategy has not been significantly amended, however investment limits for counterparties has been reviewed.

Treasury Management Strategy – Capital and Prudential Indicators and MRP Policy

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 low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council'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 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.

CIPFA 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."*

1.2 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.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

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 responsibe for scrutiny. This specific training was delivered on 19th January 2016 and further training will be arranged as required.

The training needs of treasury management officers are reviewed annually.

1.5 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

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.

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.

2. THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	1.711				
Financed by:					
Capital receipts	0.244				
Capital grants	0.362				
Capital reserves	0				
Revenue	0.932				
Section 106	0.104				
Leasing	0.069				
Net borrowing need for the year	**0**	**0**			

2.2 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. It is essentially a measure of the Council's underlying borrowing need. Whilst the Council is debt free, the CFR also includes any other long term liabilities i.e.

finance leases. Whilst these increase the CFR, and therefore the Council's 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's CFR is made up of the following elements;

- an historic technical accounting adjustment as a result of a change in accounting practices and which represents capital expenditure funded from cash pre-dating the Local Government and Finance Act 2003, and which will remain within the CFR - £1.065m
- outstanding finance lease commitments
- borrowing need to meet the Capital Programme 2016/17 – 2018/19

Any capital expenditure, which cannot immediately been paid for from existing resources, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The Council is asked to approve the CFR projections below:

£m	**2014/15 Actual**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
Capital Financing Requirement					
Accounting Adj	1.065				
Finance Leases	0.566				
Prudential Borrowing	0				
Total CFR	**1.631**				
Movement in CFR	**-0.114**				

Net financing need for the year (above)	0.069				
Less MRP/VRP and other financing movements	-0.183				
Movement in CFR	**-0.114**				

2.3 The Minimum Revenue Provision (MRP) Policy Statement

The Council is required to set aside from revenue a prudent amount, to effectively repay capital expenditure funded from borrowing (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).

CLG regulations 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, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method – Equal Instalment**

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)

Except for the elements below;

- **Asset Life Method - Annuity Method**

For commercial, regeneration or administrative projects, where revenue benefits are only realised in future years or increase in future years, and will be based on an appropriate rate.

- **Loan Principle repayment as proxy for MRP**

The council considers that where borrowing has funded loan advances, the loan principle repaid as a capital receipt negates the requirement to set aside an annual MRP charge, or in the event of default the realisation of the security.

Repayment of principal included in finance leases are applied as MRP.

Should the Council consider any Capital Investment whereby a capital receipt would be realised within the short/medium term i.e. for Capital Investment where the asset is to be held for a set period, and a capital receipt is expected to be realised at the end of this period, then the requirement to aside a minimum revenue provision to repay the debt will be considered on a case by case basis and in such cases, and in agreement with the Auditor, MRP may not be applied subject to taking account of any risks, project profiles and revenue income streams.

2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, or new grants). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Fund balance	2.160				
Earmarked Reserves	12.231				
Capital receipts	2.393				
Provisions	0.379				
Other	0				
Total core funds	**17.163**				
Working capital*	14.761				
Under/(-)over borrowing**	3.960				
Expected investments	**18.721**				

*Working capital balances shown are estimated year end; these may be higher mid-year

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 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.

%	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	**0.25**				

The estimates of net financing costs include current commitments and the proposals in this budget report.

The financing costs include;

Minimum Revenue Provision (Leasing principle)

Loss of investment interest due to investment of funds

Additional interest receivable from investments (Loans)

This is measured against the reducing Net Budget requirement over the Medium Term Financial Plan.

2.7 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council tax - band D	£0.30				

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External Debt					
Debt at 1 April	0	0			
Expected change in Debt	0				
Other long-term liabilities (OLTL) 1 April	0.680				
Expected change in OLTL	-0.114				
Actual gross debt at 31 March	**0.566**				
The Capital Financing Requirement	1.631				
Under / (over) borrowing	1.065				

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its 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 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Director of Resources confirms that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

3.2.1 The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. 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 £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt				
Other long term liabilities				
Total				

3.2.2 The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents 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.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following Authorised limit:

Authorised limit £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt				
Other long term liabilities				
Total				

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Dec 2015	0.50	2.30	2.90	3.60	3.50
Mar 2016	0.5	2.40	3.00	3.70	3.60
Jun 2016	0.75	2.60	3.10	3.80	3.70
Sep 2016	0.75	2.70	3.20	3.90	3.80
Dec 2016	1.00	2.80	3.30	4.00	3.90
Mar 2017	1.00	2.80	3.40	4.10	4.00
Jun 2017	1.25	2.90	3.50	4.10	4.00
Sep 2017	1.50	3.00	3.60	4.20	4.10
Dec 2017	1.50	3.20	3.70	4.30	4.20
Mar 2018	1.75	3.30	3.80	4.30	4.20
June 2018	1.75	3.40	3.90	4.40	4.30
Sept 2018	2.00	3.50	4.00	4.40	4.30
Dec 2018	2.00	3.50	4.10	4.40	4.30
Mar 2019	2.00	3.60	4.10	4.50	4.40

3.4 Economic Commentary

UK Gross Domestic Product (GDP) growth rates improved from 2.2% in 2013 to 2.9% in 2014. The strongest growth rate of any G7 country and was also the strongest ratesince 2006. However, this has weakened over earlier part of 2015 with the November Bank of England Inflation Report including a forecast growth to remain around 2.5%-2.7% over the next 3 years, mainlyby strong consumer demand as the squeeze on disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August inflation report was issued, worldwide economic statistics have distinctly weakened and the Novermber InflationReort flagged up particular concerns for the potential impact on the UK.

Forecast inflation is notably subdued and is expected to barely get back up to the 2% target within the next 2-3 years. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month CPI calculation, there will be a sharp tick up from the current zero rate to around 1% in the second half of 2016. There remains considerable uncertaintyaround how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing the Bank Rate.

Therefore;

- Investment returns are likely to remain low during 2016/17 and beyond

- Borrowing interest rates have been volatile during 2015 and Gilt yields have continued to remain historically low.

- There will remain a cost of carry to any new borrowing which causes and increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

A more detailed economic commentary is set out at Appendix 1.

3.4 The Borrowing strategy

The Council is currently in an under-borrowed position. This means that the capital borrowing need (The Capital Financing Requirement), has not been fully funded with loan debt as under previous accounting regulations cash has been utilised to support capital expenditure of £1.065m. Due to changes in legislation and the introduction of the Prudential Code, this is now reflected as an accounting adjustment and this element will remain in the CFR indefinately.

Any borrowing undertaken is required to be prudent, affordable and sustainable.

Therefore any long term borrowing will only be undertaken if revenue income streams or capital receipts can be generated (ie for commercial investments) or when adequate resources are identified which can fund the ongoing cost of borrowing.

The strategy, will be to undertake borrowing with any of the appropriately approved institutions which will include.

- Public Works Loans Board (PWLB)
- Muncipal Bonds Agency – currently in the process of being set up, will be offering loans to local authorities in the near future. It is hoped that the borrowing rates will be lower than those offered by the PWLB.
- Local Government Association – Development Fund (Housing only)

Borrowing will be undertaken at the best rates available, subject to terms and conditions being appropriate for its purpose.

The use of cash balances to avoid new borrowing (internal borrowing) will be kept under review to avoid incurring higher borrowing costs in later times.

Director of Resources 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 risk 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 the anticipated rate to us tapering of asset purchases, or in work 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 are still lower than they will be in the next few years.

Any decisions undertaken by the Director of Resources will be reported to the Policy and Resources Committee at the next available opportunity.

3.4.1 Policy on borrowing in advance of need

In accordance with the Prudential Code the Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates ie 2016/17 + 2 years, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

3.4.2 Treasury management limits on activity

There are three debt related treasury activity limits. 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;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for

The Council is asked to approve the following treasury indicators and limits:

£m	2016/17	2017/18	2018/19
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	75%	75%	75%
Maturity structure of fixed interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maturity structure of variable interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	25%
12 months to 2 years		0%	25%
2 years to 5 years		0%	25%
5 years to 10 years		0%	25%
10 years and above		0%	25%

4. ANNUAL INVESTMENT STRATEGY

4.1 Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015,in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are taking into account additional factors, such as regulatory capital levels. Insome cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessement process now focuses solely on the Short andLong Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay has not been changed.ese levels, there is little to no differentiation to be had by assessing Support ratings.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, we have applied the highest sovereignrating, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it willcontinue to specificy a minimum sovereign rating of AA

4.2 Investment policy

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.

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 and Long Term ratings

Ratings will not be the sole consideration in the quality of an institution; it is important that we assess and monitor the financial sector in relation to economic and political environments in which institutions operate. The assessment will take account of information that reflects the opinion of the marketsand we will engage with our advisors to maintain and monitor market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

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

Investment instruments identified for use in the financial year are listed in appendix 4.3 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

4.3 Creditworthiness policy

The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

The Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council’s minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council’s criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality **–** the Council will only use banks which:
    1. are UK banks; and/or
    2. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    1. Short Term – F1
    2. Long Term – A

  (N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will *use* all societies which:
    1. Meet the ratings for banks outlined above;
- Money market funds – AAA
- Enhanced money market funds (EMMFs) AAA
- UK Government (including gilts, treasury bonds and the DMADF)
- Certificates of Deposit
- Local authorities, parish councils etc.
- Supranational institutions
- Local Authority Property Asset Funds
- Corporate Bond Funds
- Covered Bonds

A limit of £2m per counterparty will be applied to the use of non-specified investments largely determined by the long term investment limits.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments). It should be noted that in the case of Lloyds Bank, our current bankers, that as well as allowing up £5m fixed term investment in that one institution that there is flexibility to hold, in current account balances at Lloyds Bank, up to £1m 'cash' on any one day:

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Banks 1 – up to 1 year	F1	P1	A1	£5m per counterparty at Group level	1 year
Banks 1 – over 1 year	AA	Aa2	AA	£2m Maximum exposure	1 year to 5 years
Banks 2 – UK part nationalised				£5m per counterparty at Group level	1 year
Banks 3 – Council's own bank if not covered by 1 or 2				£1m	1 day
Other Local Authorities				£5m per counterparty	5 years
Bank of England DMADF				No limit	6 months
Gilts/Treasury Bills – where no loss of principle if held to maturity				£5m maximum exposure	5 years
Supranational				£5m per counterparty	1 year
Quality Corporate Bond Funds				£2m	5 years
Local Authority Property Asset Fund				£2m	5 years

Certificates of Deposit				£2m	5 years
Covered Bonds				£1m	5 years
	Fund rating			Money and/or % Limit	Time Limit
Money market funds	AAA			£5m per counterparty	overnight
Enhanced Money Market Funds	AAA			£5m	5 years

The proposed criteria for specified and non-specified investments are shown in Appendix 4.4 for approval.

4.4 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. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. In addition:

- no more that £2m will be placed with any non-UK country at any time
- limits in place above will apply to a group of companies
- sector limits will be monitored regularly for appropriateness

A list of countries which meet our criteria at the time of this report are attached at Appendix 3.

4.5 Investment strategy

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

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 1.00%
- 2016/17 1.75%
- 2017/18 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to an average 100 days during each financial year for the next 5 years are as follows:

2016/17 0.90%
2017/18 1.50%

2018/19 2.00%
2019/20 2.25%
2020/21 2.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

Investment treasury indicator and limit - total principal funds invested for greater than 1 year. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 1 year			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 1 year	£8m	£8m	£8m

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) order to benefit from the compounding of interest.

4.6 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.
Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- **0.06% historic risk of default when compared to the whole portfolio.**

Liquidity – in respect of this area the Council seeks to maintain:

- Liquid short term deposits of at least £4m available within a week's notice.
- Weighted average life benchmark is expected to be 0.25 years, with a maximum of 1 year.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate
-

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.08%**	**0.06%**	**0.12%**	**0.17%**	**0.25%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5. TREASURY MANAGEMENT PRACTICES (TMP'S)

In accordance with the Code of Practice the Council maintains documented Treasury Management Practices which detail the principles for overall risk management, as well as written policies which cover specific areas such as interest rate risk, credit risk, and the investment of surplus cash. These TMP's have been reviewed and are attached at Appendix 6

APPENDICES

1. Economic background
2. Treasury management practice 1 – credit and counterparty risk management
3. Approved countries for investments
4. Treasury management scheme of delegation
5. The treasury management role of the Section 151 Officer
6. Treasury Management Practices

ANNEX 1 : Economic Background

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.3%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1% in the second half of 2016. Indeed, the increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. Nevertheless, despite average weekly earnings ticking up to 3.0% y/y in the three months ending in September, this is unlikely to provide ammunition for the MPC to take action to raise Bank Rate in the near future as labour productivity growth has meant that net labour unit costs appear to be rising by about only 1% y/y. Having said that, at the start of October, data came out that indicated annual labour cost growth had jumped sharply in quarter 2 from +0.3% to +2.2%: time will tell if this is just a blip or the start of a trend.

There is, therefore, considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, therefore, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016 and increases after that will be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded very strongly in Q2 to 3.9% (annualised) before dipping again in Q3 to 1.5%.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. may start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided since August, has now firmly opened up the possibility of a first rate rise in December.

Eurozone. The ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in Q1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in Q2 and looks as if it may maintain this pace in Q3. However, the recent downbeat

Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.3% after a short burst of strong growth of 1.0% during Q1. Japan has been hit hard by the downturn in China during 2015. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

This change in investors' strategy, and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

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

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve 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.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

ANNEX 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 01/03/2010 and will apply its principles to all investment activity. In accordance with the Code, The Financial Services Manager has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

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:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out in the table on pages 16 and 17 of the main report.

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5m
b.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance investment balances will be minimised as far as is possible.	£1m
c.	Any **bank or building society** that has a minimum long term credit rating of AA, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£2m
d.	Enhanced Money Market Funds AA rated	£2m
e.	Corporate Bond Funds	£2m
f.	Property Asset Funds	£2m
g.	Certificates of Deposit	£2m
h.	Covered Bonds	£1m

This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by The Financial Services Manager, and if required new counterparties which meet the criteria will be added to the list.

ANNEX 3: Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Netherlands
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

ANNEX 4: Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy;
- budget consideration and approval.

(ii) Policy and Resources Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations.

(iii) Governance and Audit Committee

- reviewing the treasury management policy and procedures and practices and making recommendations to the full Council.

-

APPENDIX 5: The treasury management role of the section 151 officer

The S151 (responsible) officer

- 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 6 - TREASURY MANAGEMENT PRACTICES

1 Introduction

1.1 The Council's funds are managed in line with the CIPFA Treasury Management Code of practice and associated guidance notes. The Council adopted on 4th March 2004 two revised CIPFA Codes specifically the Prudential Code of Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes. Under the terms of the Local Government Act 2003 and subsequent regulations authorities are required to have regard to such guidance.

1.2 Annually the Council adopts a Treasury Management Strategy, an investment strategy, detailed counterparty criteria, treasury and borrowing Prudential Indicators. Treasury Management Practices and detailed schedules set out how the treasury activity at the Council is managed by the Financial Services section.

2 Update Treasury Management Practices and Schedules

2.1 The TMPs were previously revised in June 2012. Attached are the revised TMPs for approval which reflect the following changes:

- Minor updating including changes due to the revised 2011 CIPFA TM Code and CLG and WAG investment guidance now being in final rather than draft form.
- DERIVATIVES: the revised 2011 CIPFA Code of Practice on Treasury Management included references to organisations using derivatives/hedging instruments. The Localism Act 2011 appears to give local authorities legal power to use such instruments. As these are complex instruments which require a high level of expertise to understand and use, this development will require careful and detailed consideration before practical implementation of their use. For this reason, no references have been included for derivatives.
- Change of green colour from 95 days to 100 days due to changes in banking regulation for liquidity rules for banks

3 Conclusion

3.1 In line with best practice the Council's TMP's have been reviewed and revised by the Chief Finance Officer. The Committee is invited to approve the TMP's.

TMP1 Risk Management

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

This authority uses the lowest common denominator approach which uses the lowest minimum acceptable credit rating from any of the three rating agencies: -

Minimum ratings	Fitch	Moodys	Standard & Poors
Short term	F1	P-1	A-1
Long term	AA	Aa2	AA

Organisation	Criteria	Max Amount	Max Period
Banks 1 – up to year	Minimum F1, A-1 or P-1	£5m per counterparty at Group level	1 year
Banks 1 – over 1 year	Minimum AA, AA or Aa2	£2m Maximum exposure	1 year to 5 years
Banks 2 – UK part nationalised		£5m per counterparty at Group level	1 year
Banks 3 – Council's own bank if not covered by 1 or 2		£1m	1 day
Other Local Authorities		£5m per counterparty	5 years
Bank of England DMADF		No limit	6 months
Money Market Funds	AAA	£5m per couterparty	overnight
Enhanced Money Market Funds	AAA	£5m	5 years
Gilts/Treasury Bills – where no loss of principal if held to maturity		£5m maximum exposure	5 years
Supranational		£5m per counterparty	1 year
Quality Corporate Bond Funds		£2m	5 years
Local Authority Property Asset Fund		£2m	5 years
Certificates of Deposit		£2m	5 years
Covered Bonds		£1m	5 years

In conjunction with the above the Council will also use the Capita Asset Services creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturing limits as follows:-

- 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

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Capita “Credit Policy Guide February 2015” for a full explanation (a copy is held within the Finance Department).

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.
5. Credit ratings for individual counterparties can change at any time. The Director of Resources is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

6. The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -
    - The quality financial press
    - Market data
    - Information on government support for banks and
    - The credit ratings of that government support
7. Maximum maturity periods and amounts to be placed in different types of investment instrument are as: -
    - See table at 1.1.1

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

   - Maximum amount to be placed with any one institution - £5m, £6m for the Councils own bank
   - Group limits where a number of institutions are under one ownership – maximum of £5m
   - Country limits – a minimum sovereign rating of AA from Fitch is required for an institution to be placed on our approved lending list. The list of countries which currently meet this criteria is: -

   AAA

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

   AA+

   - U.K.

   AA

   - France
   - Qatar
   - United Arab Emirates

9. Investments will not be made with counterparties that do not have a credit rating in their own right.
10. The definition of **'high credit quality'** in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1.
11. Full individual listings of counterparties and counterparty limits as at 11 January 2016 is attached at Appendix A.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to not exceed over a £1m balance in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

a. Standby facilities
At the end of each financial day any unexpected surplus funds are transferred to the Lloyds Deposit Account which is available from the Council's main bank. The balance on this account is instantly accessible if the group bank account becomes overdrawn.

b. Bank overdraft arrangements
The Council does not have a Bank overdraft.

c. Short-term borrowing facilities
The Council accesses temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £5m.

d. Insurance/guarantee facilities
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

e. Special payments
Give details of requirements for notice to be given to the treasury manager for all special payments above £10,000

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Details of approved interest rate exposure limits

1.3.2 Trigger points and other guidelines for managing changes to interest rate levels

1.3.3 Upper limit for fixed interest rate exposure and

1.3.4 Upper limit for variable interest rate exposure

- refer to the annual Treasury Management Strategy Statement

1.3.5 Policies concerning the use of instruments for interest rate management.

a. forward dealing
   Consideration will be given to dealing from forward periods dependant upon market conditions. When forward dealing is more than 3 months forward then the approval of the Director of Resources is required.

b. callable deposits
   The Council will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

c. LOBOS (borrowing under lender's option/borrower's option)
   Use of LOBOs are not considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by Director of Resources.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.4.1 Approved criteria for managing changes in exchange rate levels

If as a result of the nature of the Council's business, the Council has an exposure to exchange rate risk from time to time (e.g. arising from the receipt of income or the incurring of expenditure in a currency other than sterling) state whether / how the council manages foreign exchange exposure risk.

1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

1.5.1 Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and/or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Corporate Policy and Resources Committee at the meeting immediately following its action / in the annual Review Report.

1.5.2 Projected Capital Investment Requirements

The responsible officer will prepare a three year plan for capital expenditure for the Council. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

1.5.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period. (Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list).

The Council will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long term liabilities (73).

1.5.4 PFI, Partnerships, ALMOs and guarantees

There are currently no such agreements in place.

1.6 Legal and Regulatory Risk Management

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

English Authorities: -

Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.

Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.

Local Government Act 2003

S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03

S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03

S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04

S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04

Guidance on Investments ODPM 12.3.2004 (revised 1.4.10)

Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521

S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007

Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP

S.I. 2008 no. 414 (Capital Finance and Accounting) (Amendment) (England) Regulations 2008

S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009

S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009

S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009

S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010

Localism Act 2011

S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012

S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012

S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013

2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 20

Guidance and codes of practice

CLG Revised Guidance on Investments 1.4.2010

CLG guidance on minimum revenue provision – Feb 2012

CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,

CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011

CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013

CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996

CIPFA Standard of Professional Practice on Treasury Management 2002

CIPFA Standard of Professional Practice on Continuous professional Development 2005

CIPFA Standard of Professional Practice on Ethics 2006

The Good Governance Standard for Public Services 2004

LAAP Bulletins

IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice

PWLB circulars on Lending Policy

The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Financial Conduct Authority's Code of Market Conduct

The Council's Standing Orders relating to Contracts

The Council's Financial Regulations

The Council's Scheme of Delegated Functions

1.6.2 Procedures for Evidencing the Council's Powers/Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

In addition, it will make available on request the following:-

a. the scheme of delegation of treasury management activities and which officers carry out these duties
b. the document which sets out which officers are the authorised signatories.

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.3 Statement on the Council's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Strategic Lead for Democracy and Business Support; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Director of Resources; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1. Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Council’s Financial Regulations.

Procedures

- Electronic banking procedures – The banking system is accessed using an individual user name and password. Duties are segregated within the administration module, i.e. an inputter cannot authorise and visa versa. (Procedures available within the Finance Department)

- CHAPS payments are made through the electronic banking system above. All payments must be input and then authorised. (Procedures available within the Finance Department)
- The My Treasury platform used requires an individual login and password. Again duties are segregated within the system, i.e. an inputter cannot authorise and visa versa. (Procedures available within the Finance Department)

Investment and borrowing transactions

- All loans and investments are recorded.
- A written acknowledgement of each deal is received from the lending or borrowing institution where transactions are done directly with the organisation.
- When written confirmation is received it is checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Finance Business Partner for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan/investment arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Finance Business Partner for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution (see 1.5.1.6.) that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- No member of the treasury management team is an authorised signatory.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- All systems can only be accessed by a password.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
- The investment balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end.

- A debt charge/investment income listing is produced every quarter and year end when a review is undertaken against the budget for interest earnings and debt costs.
- The valuations and investment income statements received monthly from the Council's Property fund investment will be checked and retained for audit inspection. The authority will ensure that the external funds we invest in, are accounted for in accordance with proper accounting practices.

- The Authority will treat our Property Fund investment(s) as our own investments and will separate the assets into their component parts. As a result, the Authority will only take realised gains and losses and interest (accrued and received) to the Comprehensive Income and Expenditure Statement.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount recorded.
- Periodic interest payments of PWLB and other long term loans are manually calculated. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates and debt management expenses are calculated monthly using information from the financial ledger and spreadsheets.
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund.

1.7.2. Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

There are manual procedures in place to enable Treasury Management activities to be undertaken should there be a loss of connectivity/access to the Bank Account and My Treasury investment portal.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

All computer files are backed up on the server to enable files to be accessed from remote sites.

1.7.2. Insurance Cover Details

Fidelity Insurance

The Council has 'Fidelity' insurance cover with Aspen Ltd. This covers the loss of cash by fraud or dishonesty of employees.
This cover is limited to £1m for any one event.

Professional Indemnity Insurance

The Council also has a 'Professional Indemnity' insurance policy with Aspen Ltd. which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £1m for any one event.

Business Interruption

The Council also has a 'Business Interruption' cover as part of its property insurance with Aspen Ltd.

1.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.8.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs, Etc.)

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

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:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out in the table on page 3 of the main report.

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5m
b.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance investment balances will be minimised as far as is possible.	£1m
c.	Any **bank or building society** that has a minimum long term credit rating of AA, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£2m
d.	Enhanced Money Market Funds AA rated	£5m
e.	Corporate Bond Funds	£2m
f.	Property Asset Funds	£2m

g.	Certificates of Deposit	£2m
h.	Covered Bonds	£1m

This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions: -

a. Quarterly reviews carried out by the treasury management team
b. reviews with our treasury management consultants
c. annual review after the end of the year as reported to full council
d. Quarterly monitoring reports to committee
e. comparative reviews
f. strategic, scrutiny and efficiency value for money reviews

2.1.1 Periodic reviews during the financial year

The Financial Services Manager holds a treasury management review meeting with the Finance Business Partner every month to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.
This will include:

a) Total debt (both on-and off balance sheet) including average rate and maturity profile
b) Total investments including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every six months to review the performance of the investment and debt portfolios.

2.1.3 Review reports on treasury management

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt / investment portfolios. This report contains the following:-

a. total debt and investments at the beginning and close of the financial year and average interest rates
b. borrowing strategy for the year compared to actual strategy
c. investment strategy for the year compared to actual strategy
d. explanations for variance between original strategies and actual
e. debt rescheduling done in the year
f. actual borrowing and investment rates available through the year
g. comparison of return on investments to the investment benchmark
h. compliance with Prudential and Treasury Indicators
i. other

In addition quarterly reports will be submitted to the Council each year to provide updates on the above.

2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- Capita Asset Services Benchmarking Group
- other

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

2.2.2 Investment

The performance of investment earnings will be measured against the following benchmarks:-

a. in house investments
7 day LIBID
Weighted average rate of return
Weighted average maturity
Weighted average credit risk

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

2.3.1 Frequency and processes for tendering

Tenders are normally awarded on a three year basis with the option to extend for two years. The process for advertising and awarding contracts will be in line with the Council’s Contract Standing Orders.

2.3.2 Banking services

The Council's banking arrangements are to be subject to competitive tender every five years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

If tendering is not considered appropriate a specialist banking company must be appointed to ensure that the terms offered represent value for money.

2.3.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers will be established which takes account of both prices and quality of services.

2.3.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional treasury management

2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The Treasury section does not have a computerised system. All transactions are recorded on spreadsheets. Full details are covered in the Treasury Management procedures. The following records will be retained:-

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- Contract notes received from fund manager(s)
- Fund manager(s) valuation statements

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed

3.1.3.1. In respect of every treasury management decision made the Council will:

a) Above all be clear about the nature and extent of the risks to which the Council may become exposed

b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained

c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping

d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded

e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
b) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

3.1.3.3 In respect of investment decisions, the Council will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

4.2 Approved Instruments for Investments

Please see the Annual Investment Strategy. *The latest version of the AIS/TMSS is appended to this document.*

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003), and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

PFI/PPP
Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full Council

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

(ii) Policy and Resources Committee

- approval of amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Governance and Audit Committee

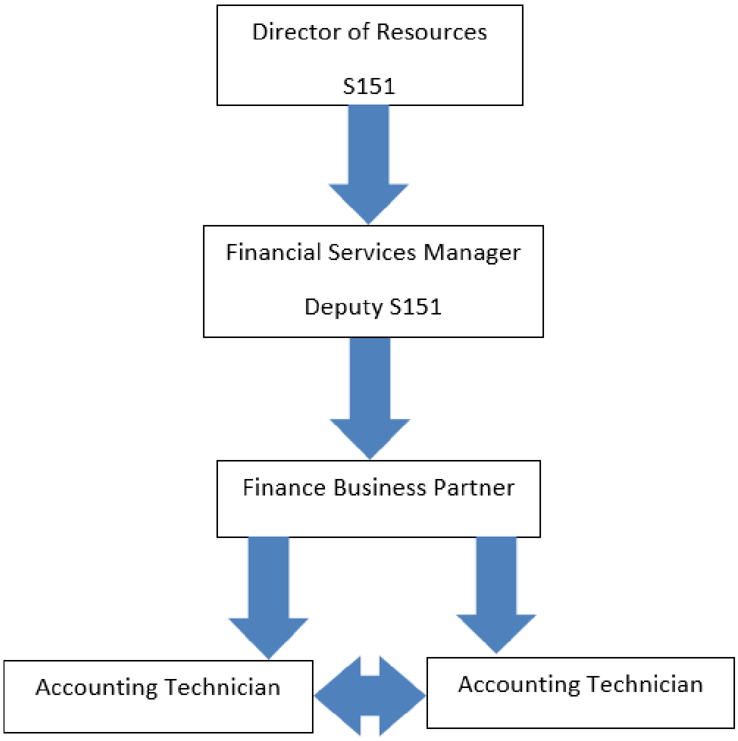
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. Receipt and checking of brokers confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Production of transfer note. Processing of accounting entry
Authorisation/Payment of Deal	Entry onto system. Approval and payment.

5.3 Treasury Management Organisation Chart



5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Director of Resources who is also the S151 officer. This person will carry out the following duties: -

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
b) submitting regular treasury management policy reports
c) submitting budgets and budget variations
d) receiving and reviewing management information reports
e) reviewing the performance of the treasury management function
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
g) ensuring the adequacy of internal audit, and liaising with external audit
h) recommending the appointment of external service providers.
i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Chief Operating Officer, Strategic Lead – Democratic and Business Support, Financial Services Manager, Principal Accountants, Finance Business Partner and Accounting Technicians must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
n) Review compliance of transactions
o) Authorise deals made by PIN
p) Authorise bank transfers by PIN
q) Ensure absence is covered

5.4.2 The Director of Resources, Chief Operating Officer, Strategic Lead – Democratic & Business Support, Financial Services Manager and the Principal Accountants

The responsibilities of these posts will be:-

a) Review compliance of transactions
b) Adherence to agreed policies and practices
c) Authorise deals made by PIN
d) Authorise bank transfers by PIN
e) Request and approval of borrowing

5.4.3 The Finance Business Partner

The responsibilities of this post will be: -

a) adherence to agreed policies and practices on a day-to-day basis
b) maintaining relationships with counterparties and external service providers
c) supervising treasury management staff
d) monitoring performance on a day-to-day basis
e) submitting management information reports to the responsible officer
f) identifying and recommending opportunities for improved practices

g) considering and proposing best investment instruments ensuring security, liquidity and finally return on investment in accordance with the Treasury Management Strategy

5.4.4 The Accounting Technicians

The responsibilities of these posts will be:-

a) Before any decisions are made:-
   - Monitor emails and data from F.T.com, Capita, banks and brokers
   - Check headlines on the following websites
     i. Financial Times
     ii. Bloomberg
     iii. Reuters
     iv. BBC News
   - Record the CDS & Equity prices

b) Check counterparty information on the Passport system
c) Execution of transactions
d) Adherence to agreed policies and practices on a day to day basis
e) Arrange investments either direct or through an authorised broker
f) Input transactions onto a treasury management system
g) Input transactions onto the banking system
h) Release transfers in respect of investments after authorisation by PIN

5.4.5 The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented
b) Ensuring that the responsible officer reports regularly to the full Council/CP&R Committee on treasury policy, activity and performance.

5.4.6 The Monitoring Officer – Strategic Lead – Democratic & Business Support

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
c) Giving advice to the responsible officer when advice is sought.

5.4.7 Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.

d) Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

The Treasury Management team currently has three trained dealers and five authorisers. As new members of staff join the team further staff will be trained.

5.6 Dealing Limits

The following posts are authorised to deal: -

<u>Long term funding and Investment</u>
All long term funding and investment decisions shall be authorised by the Financial Services Manager

<u>Short term funding and Investment</u>
The following daily limit shall apply to the approval of short term funding and investment decisions.

- Up to £5m - Finance Business Partner or above
- Over £5m – approval required from Financial Services Manager or above
- Accounting Technicians – discussion with a senior member of staff to obtain instructions for the day

5.7 List of Approved Brokers

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2

5.8 Policy on Brokers' Services

It is this Council's policy to rotate business between brokers.

5.9 Policy on Taping of Conversations

It is not this Council's policy to tape brokers conversations

5.10 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Call Accounts
- Money Market Funds
- Enhanced Money Market Funds

5.11 Settlement Transmission Procedures

A formal letter signed by an agreed cheque signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone. For payments a transfer will be made through the banking system to be completed by 2.00 pm on the same day.

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of funds or may act as the Accountable Body for certain projects. The cash in respect of these arrangements is held in the Council's bank account but transactions are separately coded. Interest may be given on credit balances at the average rate for internal balances for the year dependent on the terms of the agreement.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year: -
   a. review of the organisation's approved clauses, treasury management policy statement and practices
   b. strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement

b) Mid-year review and quarterly reports

c) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the full Council for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) borrowing requirement
   d) prospects for interest rates
   e) borrowing strategy
   f) policy on borrowing in advance of need
   g) debt rescheduling
   h) investment strategy
   i) creditworthiness policy
   j) policy on the use of external service providers
   k) any extraordinary treasury issue
   l) the MRP strategy

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

a) The Council's risk appetite in respect of security, liquidity and optimum performance
b) The definition of high credit quality to determine what are specified investments as distinct from non specified investments
c) Which specified and non specified instruments the Council will use
d) They will be used by the in house team only.
e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
f) Which credit rating agencies the Council will use
g) How the Council will deal with changes in ratings, rating watches and rating outlooks
h) Limits for individual counterparties and group limits
i) Country limits
j) Levels of cash balances
k) Interest rate outlook
l) Budget for investment earnings
m) Policy on the use of external service providers

6.4 The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council

6.6 Mid year review

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

a) activities undertaken
b) variations (if any) from agreed policies/practices
c) interim performance report
d) regular monitoring
e) monitoring of treasury management indicators for local authorities.

6.7 Annual Review Report on Treasury Management Activity

An annual report will be presented to the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

a) transactions executed and their revenue (current) effects
b) report on risk implications of decisions taken and transactions executed
c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
d) performance report
e) report on compliance with CIPFA Code recommendations
f) monitoring of treasury management indicators

6.8 Management Information Reports

Management information reports will be prepared every 3 months by the Finance Manager and will be presented to the CP&R Committee.

These reports will contain the following information: -
a) a summary of transactions executed and their revenue (current effects);
b) measurements of performance including effect on loan charges/investment income;
c) degree of compliance with original strategy and explanation of variances.
d) any non compliance with Prudential limits or other treasury management limits.

6.9 Publication of Treasury Management Reports

All Treasury Management reports are available on the Council website.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Financial Services Manager will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Financial Services Manager will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values.

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for SLT, whilst a quarterly budget monitoring report goes to CP&R Committee. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.
A formal bank reconciliation is undertaken on a monthly basis by the Finance Assistant.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 30 days.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

Team Managers are responsible for monitoring the levels of debtors and creditors. Details are passed to the treasury team to assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the cashiers to deposit in the Council's banking accounts. The cashiers will notify the treasury team each morning of cash and cheques banked the previous day so that the figures can be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is the Section 151 officer (Director of Resources)
f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Strategic Lead – Democratic & Business Support and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on www.fca.gov.uk.

In addition the Municipal Bonds Agency and the Local Government Development fund may be utilised for borrowing purposes.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on www.fca.gov.uk).

All transactions will be carried out by CHAPS for making deposits or repaying loans.

TMP 10 Training and Qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Council
b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Financial Services Manager to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The Financial Services Manager will maintain records on all staff and the training they receive.

10.3 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first hand experience of treasury management operations.

10.4 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

11.1.1 Banking Services

a) Name of supplier of service is the Lloyds Bank.
b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
c) The branch address is:
City Office, P O Box 72, Bailey Drive, Gillingham Business Park, Kent. ME8 0LS
Tel :- 0870 9020500
d) Contract commenced 01/04/15 and runs for 3 years minimum until 31/03/18.
e) Cost of service is variable depending on schedule of tariffs and volumes
f) Payments due quarterly

11.1.2 Money-Broking Services

The Council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Financial Services Manager every six months to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Director of Resources.

Name of broker - King & Shaxson Limited
Address - Candlewick House, 120 Cannon Street, London. EC4N 6AS
Tel no: 020 7929 8529
Regulatory status: Authorised

Name of broker – RP Martin
Address – One Churchill Place, Canary Wharf, London. E14 5RD
Tel no: 020 7894 8698
Regulatory status: Authorised

Name of broker – ICAP EUROPE LTD
Address – 2 Broadgate, London. EC2M 7UR
Tel no: 020 7532 3560
Regulatory status: Authorised

Name of broker – Tullett Prebon (Europe) Limited
Address – 155 Bishopgate, London. EC2M 3TQ
Tel no: 020 7200 7042
Regulatory status: Authorised

Name of broker – Sterling International Brokers
Address – Colechurch House, 1 London Bridger Walk, London. SE1 2SS
Tel no: 020 7962 9960
Regulatory status: Authorised

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.
The performance of consultants will be reviewed by the Financial Services Manager every year to check whether performance has met expectations.

a) Name of supplier of service is Capita Treasury Solutions Ltd. Their address is 40 Dukes Place, London, EC3A 7NH Tel: 0871 664 6800
b) Regulatory status: investment adviser authorised by the FCA
c) Contract commenced 01/04/15 and runs for 3 years minimum (option to extend for two years) 31/03/18.

Other Consultancy services may be employed on short term contracts as and when required.

11.1.4 Credit Rating Agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant’s annual fee.

11.2 Procedures and Frequency for Tendering Services

See TMP2

TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

Treasury Management Policy Statement
Treasury Management Strategy Statement
Annual Investment Strategy
Minimum Revenue provision policy statement
Annual Treasury Review Report
Treasury Management monitoring reports (e.g. half yearly, quarterly)

Annual accounts and financial instruments disclosure notes
Annual budget
3 Year Capital Plan

Minutes of Council committee meetings

Schedule of all external funds managed by the Council on behalf of others and the basis of attributing interest earned and costs of these investments.

List of Approved Counterparties for Lending for West Lindsey District Council.

Any values highlighted in yellow have undergone a change in the past 14 days.

			Fitch Ratings			Moodys Ratings			S&P Ratings										
Counterparty			Long Term		Short Term	Long Term		Short Term	Long Term		Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)	Monetary Limit	Duration	Notes
Australia			SB	AAA		SB	Aaa		SB	AAA				41.93					
Banks	Australia and New Zealand Banking Group Ltd.		SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	83.40	●	O - 12 mths	2.00 Million	1 Years	
	Commonwealth Bank of Australia		SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	83.33	●	O - 12 mths	2.00 Million	1 Years	
	Macquarie Bank Ltd.		SB	A	F1	SB	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	104.41	●	G - 100 days	2.00 Million	1 Years	
	National Australia Bank Ltd.		SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	83.33	●	O - 12 mths	2.00 Million	1 Years	
	Westpac Banking Corp.		SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	83.33	●	O - 12 mths	2.00 Million	1 Years	
Canada			SB	AAA		SB	Aaa		SB	AAA				30.65					
Banks	Bank of Montreal		SB	AA-	F1+	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Bank of Nova Scotia		SB	AA-	F1+	NW	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Canadian Imperial Bank of Commerce		SB	AA-	F1+	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	National Bank of Canada		SB	A+	F1	NO	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths	2.00 Million	1 Years	
	Royal Bank of Canada		SB	AA	F1+	NO	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Toronto-Dominion Bank		SB	AA-	F1+	NO	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
Denmark			SB	AAA		SB	Aaa		SB	AAA				13.56					
Banks	Danske A/S		SB	A	F1	SB	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	63.57	●	R - 6 mths	2.00 Million	1 Years	
Finland			NO	AAA		NO	Aaa		NO	AA+				18.04					
Banks	Nordea Bank Finland PLC		SB	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Pohjola Bank PLC		SB	WD	WD	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	

France		SB	AA		SB	Aa2		NO	AA				24.25					
Banks	BNP Paribas	SB	A+	F1	SB	A1	P-1	NW	A+	A-1	R - 6 mths	R - 6 mths	71.96	●	R - 6 mths	2.00 Million	1 Years	
	Credit Agricole Corporate and Investment Bank	PO	A	F1	PO	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	66.30	●	R - 6 mths	2.00 Million	1 Years	
	Credit Agricole S.A.	PO	A	F1	PO	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	70.49	●	R - 6 mths	2.00 Million	1 Years	
	Credit Industriel et Commercial	SB	A+	F1	SB	Aa3	P-1	NO	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths	2.00 Million	1 Years	
	Societe Generale	SB	A	F1	SB	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	70.53	●	R - 6 mths	2.00 Million	1 Years	
Germany		SB	AAA		SB	Aaa		SB	AAA				12.07					
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+	PO	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Landesbank Berlin AG				PO	A1	P-1				R - 6 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Landesbank Hessen-Thueringen Girozentrale	SB	A+	F1+	PO	A1	P-1	SB	A	A-1	R - 6 mths	O - 12 mths	59.53	●	O - 12 mths	2.00 Million	1 Years	
	Landwirtschaftliche Rentenbank	SB	AAA	F1+	SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths			P - 24 mths	2.00 Million	5 Years	
	NRW.BANK	SB	AAA	F1+	SB	Aa1	P-1	SB	AA-	A-1+	P - 24 mths	P - 24 mths			P - 24 mths	2.00 Million	1 Years	
Luxembourg		SB	AAA		SB	Aaa		SB	AAA									
Banks	European Investment Bank	SB	AAA	F1+	SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths			P - 24 mths	5.00 Million	1 Years	(M)
Netherlands		SB	AAA		SB	Aaa		SB	AAA				18.63					
Banks	ABN AMRO Bank N.V.	SB	A	F1	SB	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	62.76	●	R - 6 mths	2.00 Million	1 Years	
	Bank Nederlandse Gemeenten N.V.	SB	AA+	F1+	SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths			P - 24 mths	2.00 Million	5 Years	
	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)	SB	AA-	F1+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	54.66	●	O - 12 mths	2.00 Million	1 Years	
	ING Bank N.V.	SB	A	F1	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	55.71	●	R - 6 mths	2.00 Million	1 Years	
	Nederlandse Waterschapsbank N.V.				SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths			P - 24 mths	2.00 Million	5 Years	
Qatar		SB	AA		SB	Aa2		SB	AA				97.44					
Banks	Qatar National Bank	SB	AA-	F1+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	

Singapore		SB	AAA		SB	Aaa		SB	AAA									
Banks	DBS Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Oversea-Chinese Banking Corp. Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	United Overseas Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
Sweden		SB	AAA		SB	Aaa		SB	AAA				13.07					
Banks	Nordea Bank AB	SB	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Skandinaviska Enskilda Banken AB	PO	A+	F1	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Svenska Handelsbanken AB	SB	AA-	F1+	SB	Aa2	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
	Swedbank AB	PO	A+	F1	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
Switzerland		SB	AAA		SB	Aaa		SB	AAA				21.10					
Banks	Credit Suisse AG	PO	A	F1	NW	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	91.05	●	R - 6 mths	2.00 Million	1 Years	
	UBS AG	PO	A	F1	PW	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	53.20	●	R - 6 mths	2.00 Million	1 Years	
United Arab Emirates		SB	AA		SB	Aa2		SB	AA									
Banks	National Bank of Abu Dhabi	SB	AA-	F1+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths	2.00 Million	1 Years	
United Kingdom		SB	AA+		SB	Aa1		NO	AAA				19.52					
AAA rated and Government backed	Debt Management Office										Y - 60 mths	Y - 60 mths			Not Applicable		6 Months	(M) Monetary Limit: unlimited
Banks	Bank of Scotland PLC	SB	A+	F1	PO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	54.03	●	R - 6 mths	5.00 Million	1 Years	
	Close Brothers Ltd	SB	A	F1	SB	Aa3	P-1				R - 6 mths	R - 6 mths			R - 6 mths	5.00 Million	1 Years	
	Goldman Sachs International Bank	PO	A	F1	SB	A1	P-1	PW	A	A-1	R - 6 mths	R - 6 mths	91.45	●	R - 6 mths	5.00 Million	1 Years	
	HSBC Bank PLC	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	76.40	●	O - 12 mths	5.00 Million	1 Years	
	Lloyds Bank Plc	SB	A+	F1	PO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	52.24	●	R - 6 mths	5.00 Million	1 Years	
	Santander UK PLC	PO	A	F1	SB	A1	P-1	NO	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths	5.00 Million	1 Years	

	Standard Chartered Bank	NO	A+		F1	NW	Aa2		P-1	SB	A+		A-1	O - 12 mths	O - 12 mths	145.04	●	R - 6 mths	5.00 Million	1Years	
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A		F1	SB	A1		P-1	SB	A		A-1	R - 6 mths	R - 6 mths	90.33	●	R - 6 mths	5.00 Million	1Years	
	UBS Ltd.	PO	A		F1	PW	A2		P-1	PO	A		A-1	R - 6 mths	R - 6 mths	53.20	●	R - 6 mths	5.00 Million	1Years	
Building Society	Coventry Building Society	SB	A		F1	PO	A2		P-1					R - 6 mths	R - 6 mths			R - 6 mths	5.00 Million	1Years	
	Nationwide Building Society	SB	A		F1	SB	A1		P-1	SB	A		A-1	R - 6 mths	R - 6 mths			R - 6 mths	5.00 Million	1Years	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC	SB	BBB+		F2	PO	A3		P-2	SB	BBB+		A-2	B - 12 mths	B - 12 mths			Not Applicable	5.00 Million	1Years	(M) £5 Mln per CP at group level
	The Royal Bank of Scotland Plc	SB	BBB+		F2	PO	A3		P-2	SB	BBB+		A-2	B - 12 mths	B - 12 mths	62.46	●	Not Applicable	5.00 Million	1Years	(M) £5 Mln per CP at group level
United States		SB	AAA			SB	Aaa			SB	AA+					12.59					
Banks	Bank of America N.A.	SB	A+		F1	SB	A1		P-1	PW	A		A-1	R - 6 mths	R - 6 mths			R - 6 mths	2.00 Million	1Years	
	Bank of New York Mellon, The	SB	AA		F1+	SB	Aa1		P-1	SB	AA-		A-1+	P - 24 mths	P - 24 mths			P - 24 mths	2.00 Million	1Years	
	Citibank N.A.	SB	A+		F1	SB	A1		P-1	PW	A		A-1	R - 6 mths	R - 6 mths	88.81	●	R - 6 mths	2.00 Million	1Years	
	JPMorgan Chase Bank N.A.	SB	AA-		F1+	SB	Aa2		P-1	SB	A+		A-1	O - 12 mths	O - 12 mths	61.27	●	O - 12 mths	2.00 Million	1Years	

Advisory notes:

Local Authorities - 5 Years - £5 Million per LA

Corporate Bond Funds - 5 Years - £2 Million

Enhanced Money Market Funds - 5 Years - £2 Million

Local Authority Property Asset Fund - 5 Years - £2 Million

Money Market Funds - Overnight - £5 Million per Money Market Fund

Part Nationalised Banks - £5 Million limit per counterparty on group level

No more than £2 Million will be placed with non-UK countries at any time

(M) = Manually added counterparty. If a rating changes for this institution it will not alter its status on the counterparty list, or limits assigned to it.

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Key

Watches and Outlooks	
SB	Stable Outlook
NO	Negative Outlook
NW	Negative Watch
PO	Positive Outlook
PW	Positive Watch
EO	Evolving Outlook
EW	Evolving Watch
WD	Rating Withdrawn

CDS

Indicator	Status
● (green)	In Range
● (orange)	Monitoring
● (red)	Out of Range

Duration

Duration	
60 Months	Y
24 Months	P
12 Months	B
12 Months	O
6 Months	R
100 Days	G
0 Months	N/C

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