APPENDIX A

TREASURY MANAGEMENT STRATEGY 2015/16

SECTION 1 - INTRODUCTION

BACKGROUND

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 service 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.

2. 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.

3. The Chartered Institute of Public Finance and Accountancy (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."

REPORTING REQUIREMENTS

4. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. The responsibility for the implementation and monitoring of these reports is the Executive with the Audit and Governance Committee responsible for the effective scrutiny of the treasury management strategy and policies.

5. The three reports are:

   (1) Treasury Management Strategy and Prudential Indicators, covering:
   - the capital plans (including prudential indicators);
   - a minimum revenue provision (MRP) policy;
   - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - the investment strategy (the parameters on how investments are to be managed).

   (2) Mid-Year Treasury Management Report - updating members with the progress of the capital position and investment activity, amending prudential and treasury indicators as necessary and whether the treasury strategy is being met or requires revision.

(3) Annual Treasury Report - This provides details of the actual prudential and treasury indicators and actual treasury activity compared to the estimates within the strategy.

TREASURY MANAGEMENT STRATEGY FOR 2015/16

6. The strategy for 2015/16 covers two main areas:

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

   (2) Treasury Management Issues
   - current treasury position;
   - treasury indicators which will limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - borrowing strategy;
   - policy on borrowing in advance of need;
   - investment strategy;
   - investment counterpary selection criteria; and
   - policy on use of external service providers.

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

TRAINING

8. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

9. The training needs of treasury management officers are periodically reviewed.

TREASURY MANAGEMENT CONSULTANTS

10. The Council uses Capita Asset Services 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.

11. 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.

SECTION 2 - CAPITAL PRUDENTIAL INDICATORS 2014/15 - 2017/18

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

13. A summary of all prudential and treasury indicators can be found in Annex A.

Capital Expenditure (Aff.3)

14. This prudential indicator is a summary of the Council's capital expenditure plans forming part of this budget cycle.

Capital Expenditure £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	Un-allocated
Public Protection	0	0	0	0	429
Streetscene	185	134	0	0	309
Leisure & Community	3,921	7,147	974	0	513
Health & Housing	722	560	480	480	60
Planning & Development	74	84	15	15	720
Policy & Resources	10,818	3,303	655	540	3
Total General Fund	**15,720**	**11,228**	**2,124**	**1,035**	**2,034**
HRA	7,351	11,232	3,207	2,240	0
Total	**23,071**	**22,460**	**5,331**	**3,275**	**2,034**

15. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	Un-allocated
General Fund	15,720	11,228	2,124	1,035	2,034
HRA	7,351	11,232	3,207	2,240	0
Total	**23,071**	**22,460**	**5,331**	**3,275**	**2,034**
Financed by:					
Capital receipts	5,307	2,255	1,080	230	60
Capital grants	6,850	6,927	250	250	309
Capital reserves	2,176	1,200	254	15	516
Revenue	8,738	9,113	3,747	2,780	1,149
Net financing need for the year	**0**	**2,965**	**0**	**0**	**0**

The Council's Borrowing Need (Capital Financing Requirement) (Aff.5)

16. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.

17. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduce the borrowing in line with the asset's life.

18. The CFR projections are as follows:

£'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
General Fund	-2,754	211	211	211
HRA	53,805	53,805	53,805	53,805
Total CFR	**51,051**	**54,016**	**54,016**	**54,016**

Minimum revenue provision (MRP) policy statement

19. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. Local Authorities are required to 'have regard' to guidance on Minimum Revenue Provision (MRP) issued by the Secretary of State. This guidance suggests a number of options for calculating MRP but does not preclude other prudent methods that the Council may wish to adopt.

20. The Council does not currently have an MRP policy statement as it does not have any long term General Fund borrowing. Any decisions on borrowing will be reported to the Executive and at this stage an MRP policy statement will be set based on the nature of the borrowing and the capital scheme the borrowing is for.

Affordability Prudential Indicators

21. 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:

Financing costs as a percentage of net revenue stream (Aff.1)

22. 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.

23. The positive percentage for the HRA for 2014/15 to 2017/18 reflects the net borrowing costs for the HRA settlement.

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
General Fund	-12%	-11%	-11%	-12%
HRA	14%	14%	14%	14%
Total	**3%**	**3%**	**3%**	**3%**

Incremental impact of capital investment decisions on council tax and housing rents (Aff.2)

24. This indicator identifies the revenue costs associated with proposed changes to the capital programme 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.

25. Similar to the council tax calculation, the housing rents indicator identifies the trend in the cost of proposed changes in the HRA capital programme compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax band D	£2.70	£2.24	£0.43	£0.83
Weekly housing rent levels	£0.56	£0.77	£0.22	£0.15

26. **HRA Ratios**

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268
HRA revenues £'000	12,120	12,268	13,277	13,222
Number of HRA dwellings	2,389	2,389	2,443	2,439
Ratio of debt to revenues %	4.06:1	4.02:1	3.71:1	3.72:1
Debt per dwelling £	£20,622	£20,622	£20,167	£20,200

SECTION 3 - TREASURY MANAGEMENT STRATEGY 2015/16

27. 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 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 appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

CURRENT PORTFOLIO POSITION

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

£'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing at 1 April	41,830	41,630	44,395	44,195
Expected change in borrowing	(200)	2,765	(200)	0
Other long term liabilities	0	0	0	0
Borrowing at 31 March	**41,630**	**44,395**	**44,195**	**44,195**
The Capital Financing Requirement	51,051	54,016	54,016	54,016
Under/(over) borrowing	**9,421**	**9,621**	**9,821**	**9,821**

29. 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.

30. The Director of Finance and Resources reports 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.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary (Aff.4)

31. This is the limit beyond which external borrowing 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 borrowing.

Operational Boundary £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	48,000	48,000	46,000	45,000
Other long term liabilities	2,000	4,000	4,000	4,000
Total	**50,000**	**52,000**	**50,000**	**49,000**

The Authorised Limit for External Borrowing

32. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

33. 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.

34. The Council is asked to approve the following Authorised Limit:

Authorised Limit £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	69,000	73,000	73,000	77,000
Other long term liabilities	4,000	6,000	6,000	6,000
Total	**73,000**	**79,000**	**79,000**	**83,000**

35. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt cap	56,851	56,851	56,851	56,851
HRA CFR	53,805	53,805	53,805	53,805
HRA headroom	3,046	3,046	3,046	3,046

PROSPECTS FOR INTEREST RATES

36. 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 and commentary gives the Capita Asset Services central view on interest rates and economic update.

Annual Average %	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
March 2015	0.50	2.20	3.40	3.40
June 2015	0.50	2.20	3.50	3.50
Sept 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
March 2016	0.75	2.60	4.00	4.00
June 2016	1.00	2.80	4.20	4.20
Sept 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
March 2017	1.25	3.20	4.50	4.50
June 2017	1.50	3.30	4.60	4.60
Sept 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
March 2018	2.00	3.60	4.80	4.80

37. UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established.

38. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015.

39. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

40. The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

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

- Greece: the general election on 25 January 2015 brought an anti EU and anti austerity political party to power. If this eventually results in Greece leaving the

Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

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

BORROWING STRATEGY

42. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

43. Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Director of Finance and 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 risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

44. Any decisions will be reported to the Executive at the next available opportunity.

Treasury Management Limits on Activity (Pru.3 and 4)

45. 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 refinancing, and are required for upper and lower limits.

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

Upper limits on interest rate exposures	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	%	**%**	**%**	**%**
- Upper limit on variable interest rate exposures	25	25	25	25
- Upper limit on fixed interest rate exposures	100	100	100	100
Maturity structure of borrowing	**Upper Limit**			
	%	**%**	**%**	**%**
- Loans maturing within 1 year	25	25	25	25
- Loans maturing within 1 - 2 years	25	25	25	25
- Loans maturing within 2 - 5 years	25	25	25	25
- Loans maturing within 5 - 10 years	50	50	50	50
- Loans maturing in over 10 years	100	100	100	100

POLICY ON BORROWING IN ADVANCE OF NEED

47. 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, 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.

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

DEBT RESCHEDULING

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

50. The reasons for any rescheduling to take place will include:
    - the generation of cash savings and / or discounted cash flow savings;
    - helping to fulfil the treasury strategy;
    - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

52. All rescheduling will be reported to the Council at the earliest meeting following its action.

SECTION 4 - ANNUAL INVESTMENT STRATEGY 2015/16

INVESTMENT POLICY

53. The Council's investment policy has regard to DCLG's Guidance on Local Government and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

54. The Council's investment priorities will be security of capital first, liquidity second and then the return.

55. In accordance with the above guidance from DCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accords with the ratings, watches and outlooks published by all three ratings agencies. Using the Capita Asset Services ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

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

57. 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.

58. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoid concentration risk.

59. The intention of the strategy is to provide security of investment and minimisation of risk.

INVESTMENT COUNTERPARTY SELECTION CRITERIA

60. 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 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.

61. The Director of Finance and 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.

62. 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.

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

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings, the Council will be advised of information in movements in Credit Default Swap and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

64. Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information (for example Credit Default Swaps, negative rating watches/outlooks). This additional information will be applied to compare relative security of differing investment counterparties.

65. The following internal measures are also in place:

- Investment decisions formally recorded and endorsed using a Counterparty Decision Document; and

- Monthly officer reviews of the investment portfolio and quarterly reviews with the Chief Executive Officer.

66. 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 use banks which are UK banks and/or are non-UK and domiciled in a country which has a minimum sovereign rating of AA and have as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

	Fitch	Moody's	Standard and Poor's
Short Term	F1	P-1	A-1
Long Term	A	A2	A

- 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.

- Bank 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 - Building societies have formed the basis of the UK's savings culture and are under strict FSA directives in regard to their borrowing and lending criteria. The Council will use all societies which meet the ratings for banks outlined above and/or have assets in excess of £5bn.

- Other investment counterparties:

  i. UK Government (including gilts and the Debt Management Account Deposit Facility)
  ii. Local authorities
  iii. Money market funds
  iv. Enhanced cash funds

COUNTRY AND SECTOR CONSIDERATIONS

67. The Council 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.

68. The Council will limit the amount of investments with building societies to 25% of the portfolio.

69. As far as possible, the Council will aim to maintain at least 25% of investments maturing within 1 year, and have no more than 50% of investments that have a maturity date of more than 1 year.

TIME AND MONETARY LIMITS APPLYING TO INVESTMENTS

70. 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):

	Fitch Long Term Rating	Money Limit	Time Limit
Banks 1 - good credit quality	A	£6m	5 years
Banks 2 - part-nationalised	N/A	£8m	3 years
Building societies - Assets over £5bn	N/A	£2m	1 year
Debt Management Account Deposit Facility	AAA	Unlimited	6 months
Local Authorities	N/A	Unlimited	5 years
Money Market Funds	AAA	£6m per fund	Liquid
Enhanced Cash Funds	AAA	£6m per fund	Liquid

INVESTMENT STRATEGY

71. The Council's in-house managed funds are mainly existing resources earmarked to finance future capital expenditure and resources derived from favourable cash flow with a core balance of £10 - £15 million available for investment over a year.

72. Investments will accordingly 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).

73. The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. The Bank Rate forecasts for financial year ends (March) are:

Year	Bank Rate
2015/16	0.75%
2016/17	1.25%
2017/18	2.00%

74. There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

Investment Treasury Indicator and Limit (Pru.5)

75. Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

£M	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Principal sums invested > 364 days	16	15	11	11

76. For its cash flow generated balances, the Council will seek to utilise its call accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

External Fund Managers

77. Up to £13 million of the Council's investments are externally managed on a discretionary basis by Tradition. This level is based on the core balance of £10-15 million and is reviewed periodically as the core balance changes.

78. Tradition will comply with the Annual Investment Strategy and their performance is reviewed quarterly by the Director of Finance and Resources.

79. The agreement between the Council and Tradition additionally stipulate operational guidelines aound duration and limits in order to contain and control risk.

OTHER ISSUES

80. Where cash flows determine it necessary, the Council's bankers - NatWest (part of the RBS group) will be used on an unlimited basis. If their credit quality is reduced, the Council will continue to use their banking services but no investments will be placed with them.

81. The unprecedented changes in the economy and the financial sector are such that this Strategy Statement provides a framework within which Officers will operate. The Director of Finance and Resources will take further precautionary steps to manage the investment portfolio within the framework, responding to the economic conditions as they evolve throughout the year.

SCHEME OF DELEGATION

(i) Full Council

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

(ii) Responsible body - Executive

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

(iii) Responsibility for scrutiny - Audit and Governance Committee

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

ANNEX A

SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator	Description	2014/15	2015/16	2016/17	2017/18
Aff.1	***Affordability Measure: Financing Costs as a percentage of net revenue stream***				
	Overall Position	3%	3%	3%	3%
1a	General Fund	-12%	-11%	-11%	-11%
1b	Housing Revenue Account	14%	14%	14%	14%
Aff.2	***Affordability Measure: Incremental impact of capital investment on Council Tax and Housing Rents***				
2a	Council Tax increases, borrowing costs only	£2.70	£2.24	£0.43	£0.83
2b	Housing Rent increases, borrowing costs only	£0.56	£0.77	£0.22	£0.15
Aff.3	***Affordability Measure: Capital Expenditure (£'000s)***	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	General Fund	£15,720	£11,228	£2,124	£1,036
	Housing Revenue Account	£7,351	£11,232	£3,207	£2,240
	Total Capital Expenditure	**£23,071**	**£22,460**	**£5,331**	**£3,276**
Aff.4	***Affordability Measure: External Debt Level (£'000s)***				
	Authorised limit, comprising	£73,000	£76,000	£79,000	£83,000
	- borrowing	*£69,000*	*£70,000*	*£73,000*	*£77,000*
	- other long term liabilities	*£4,000*	*£6,000*	*£6,000*	*£6,000*
	Operational boundary, comprising	£50,000	£49,000	£50,000	£49,000
	- borrowing	*£48,000*	*£45,000*	*£46,000*	*£45,000*
	- other long term liabilities	*£2,000*	*£4,000*	*£4,000*	*£4,000*
Aff.5	***Affordability Measure: Capital Financing Requirement (CFR) (£'000s)***	£51,051	£54,016	£54,016	£54,016
	General Fund CFR closing balance in the year	-£2,754	£211	£211	£211
	HRA CFR closing balance in the year	£53,805	£53,805	£53,805	£53,805
Pru.1	***Prudence Measure: Gross Debt and Capital Financing Requirement (CFR) (£'000s)***				
	Gross Debt	£41,630	£44,395	£41,230	£41,230
	CFR (for last, current and next 2 years)	£210,134	£213,099	£216,064	£216,064
	Has measure been achieved?	Achieved	Achieved	Achieved	Achieved
	Memorandum Item : Prudence margin	£165,530	£168,504	£174,834	£174,834
Pru.2	***Prudence Measure: Adoption of the CIPFA Treasury Management Code of Practice***				
	Has the Code been adopted in its entirety?	Yes	Yes	Yes	Yes
Pru.3	***Prudence Measure: Upper Limits to fixed and variable interest rate exposure***				
	Upper limit to variable interest rate exposures	25%	25%	25%	25%
	Upper limit to fixed interest rate exposures	100%	100%	100%	100%
Pru.4	***Prudence Measure: Maturity structure of borrowing***	Upper Limit	Upper Limit	Upper Limit	Upper Limit
	Loans maturing within 1 year	25%	25%	25%	25%
	Loans maturing within 1 - 2 years	25%	25%	25%	25%
	Loans maturing within 2 - 5 years	25%	25%	25%	25%
	Loans maturing within 5 - 10 years	50%	50%	50%	50%
	Loans maturing in over 10 years	100%	100%	100%	100%
Pru.5	***Prudence Measure: Total Principal sums invested for periods of more than 364 days (£'000s)***				
	Upper Investment Limit for the year	£16,000	£15,000	£11,000	£10,000