HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
10 February 2015

Subject: **2015/16 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS**

All Wards

Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

---

1.0 PURPOSE AND BACKGROUND:

1.1 This report considers the 10 year Capital Programme covering the financial years 2015/16 to 2024/25, the 2015/16 Capital Programme and the Treasury Management Strategy Statement; including the Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

1.2 The 10 year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council has the option to continue with its principle of not borrowing to finance its own capital expenditure. The Financial Strategy which supports the Capital Programme 2015/16 to 2014/25 is being approved at this February 2015 Cabinet.

1.3 It is a legal requirement under the Local Government Act 2003 and the CIPFA Prudential Code to ensure that the Capital Programme is affordable, sustainable and prudent over a 3 year period. The 10 year Capital Programme 2015/16 to 2024/25 clearly adheres to this requirement and it should be noted that the 10 year Programme is an estimate.

1.4 Prior to expenditure being incurred on any scheme a Value for Money project appraisal occurs for each project and the annual Capital Programme is approved at Council before the commencement of the new financial year. The 2015/16 Capital Programme is detailed in this report.

1.5 The Treasury Management Strategy Statement includes the Annual Investment Strategy and the Minimum Revenue Policy Statement and ensures that the funding of the Capital Programme is affordable, sustainable and prudent. The Treasury Management Strategy manages the cash flow position of the Council on a long and short term basis to ensure that cash is available when needed and surplus funds are invested in with low risk counterparties (ensuring security of funding is key), providing adequate liquidity, whilst also considering investment return.

1.6 The Capital Programme and Treasury Management Strategy are monitored through the setting of the Prudential and Treasury Management Indicators on an annual basis prior to the beginning of the new financial year.

1.7 This report seeks approval for

(a) the 10 year Capital Programme 2015/16 to 2024/25
(b) the Capital Programme for the coming financial year 2015/16, which is informed by the 10 year Capital Programme
(c) the Treasury Management Strategy Statement 2015/15
(d) the Minimum Revenue Policy Statement 2015/16
(e) the Prudential and Treasury Indicators 2014/15

2.0 10 YEAR CAPITAL PROGRAMME 2015/16 to 2024/25:

2.1 The 10 year Capital Programme 2015/16 to 202425 shows capital expenditure of £52,554,300, which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £60,755,855. The Financial Strategy supports this 10 year Capital Programme which shows it is affordable, sustainable and prudent over the long term, leaving a balance of funding of £8,201,555.

2.2 The 10 Year Capital Programme 2015/16 to 2024/25 is financed from 4 earmarked reserves as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	5,900,000
Computer Fund	2,660,000
Capital Receipts Reserve	3,994,300
Economic Development Fund	5,000,000
Borrowing / Surplus Funds	35,000,000
	52,554,300

In essence, the Capital Programme is split into these four sections; the detailed Capital Programme is shown in Annexes A1, A2, A3 and A4.

2.3 **Repairs and Renewals Fund -** Annex A1 details the funding available in the Repairs and Renewals Fund, together with a detailed estimate of the schemes that will utilise this funding over the next 10 years. This fund will be used to fund all repairs and renewals, including those in the revenue budget. This practice will protect the repairs budget, as in the previous year, from being used to fund other items of expenditure and eliminate excessive spending at the end of the year.

2.4 **Computer Fund** - Annex A2 details the funding available in the Computer Fund, together with an estimate of how this funding will be utilised over the next 10 years. No specific schemes are detailed other than the website project because it is envisaged that schemes will emerge from the review of all services over the next 12 – 18 months, which will provide the detail of the computer programme.

2.5 The Repairs and Renewals Fund and Computer Fund at the end of the 10 year Strategy will require additional funding to be allocated to continue necessary investment. This will be facilitated by income generation opportunities available to the Council and continued revenue efficiencies savings from existing budgets.

2.6 **Capital Receipts Reserve** - Annex A3 details the funding available in the Capital Receipts Reserve, together with an estimate of future receipts and the detailed schemes to be financed from the Reserve over the next 10 years. The Capital Receipts Reserve has sufficient balances to continue to fund capital expenditure beyond the 10 year Capital Programme.

2.7 **Economic Development Fund** – Annex A4 details the Economic Development Fund which was created in 2014/15 and £5,000,000 was allocated. The Investment Plan was approved at Cabinet on 2 December 2014 and currently funding is allocated on an even basis £500,000 throughout the 10 year period. Additional funding is allocated to the Economic Development Fund in 2023/24.

2.8 **Borrowing / Surplus funds** – On 16 December 2014 Cabinet approved the loan to Broadacres Housing Association to assist the local area in increasing housing opportunities for the community. The maximum amount of the loan is potentially £35,000,000 and therefore, for the purpose of prudent provision, it is estimated that the total amount will be borrowed in the year 2015/16. There is still the flexibility that surplus funds could contribute to the funding of the loan and both these options will be considered in the light of the treasury management economic and interest rate environment.

2.9 In preparing the 10 year Capital Programme a number of schemes were put forward that were deemed not to be business critical at this time and therefore are not incorporated in the 10 year Capital Programme. These schemes will be reassessed in the future and incorporated into future capital programmes, if they become business critical.

3.0 2015/16 CAPITAL PROGRAMME BUDGET:

3.1 The Capital Programme 2015/16 totals £36,854,300 and is funded as follows:

	£
Repairs and Renewals Fund	751,000
Computer Fund	277,000
Capital Receipts Reserve	1,326,300
Economic Development Fund	500,000
Borrowing / Surplus Funds	35,000,000
	37,854,300

2.4 The Capital Programme 2015/16 is attached at Annex 'B'. This details the capital expenditure cost and also the total cost to the Council, along with associated funding received from third parties in respect of the schemes. In addition, where a scheme appears for a number of years, an estimation of the costs in future years is also given.

2.7 All schemes have been assessed to allow a considered and informed judgement to be made in respect of the Value for Money of each scheme. It is believed that each scheme does represent value for money. The reasons for this judgement are:-

- each scheme contributes towards the attainment of a particular Business Plan target and a number have clear community benefits;
- a number of schemes generate ongoing revenue savings;
- although the cost of each scheme is indicative, prior to implementation each scheme will follow the Council's procurement process to ensure best value is achieved;
- each scheme has a clear completion date.

2.8 A proposal form for each scheme giving evidence of how value for money has been obtained has been reviewed by the Corporate Capital Monitoring Group, which is chaired by the Director of Support Services & Deputy Chief Executive and attended by the Director of Environmental Services and Director of Customer & Leisure Services.

2.9 The 10 year Capital Programme and the 2015/16 Capital Programme will be used to inform the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the calculation of the Prudential Indicators as detailed in Paragraph 4.0 and subsequent paragraphs.

3.0 2014/15 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS:

3.1 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2015/16. The Treasury Management Strategy Statement including the Annual Investment Strategy, the Minimum Revenue Provision Policy Statement and Prudential and Treasury Management Indicators is attached at Annex 'C'. Specifically the Treasury Management Strategy:

- Sets out the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code, the CIPFA Treasury Management Code of Practice and the Communities and Local Government Minimum Revenue Provision Guidance and also Investment Guidance;
- Identifies reporting arrangements and responsibilities;
- Clarifies the potential requirement to borrow only for the loan to Broadacres Housing Association;
- Clearly states that the Council's priorities for investment are the security of capital, whilst also considering liquidity and rate of return;
- Identifies the type and the limits for investments and counterparties with which those investments can be placed as well as the maximum duration of the investment;
- Calculates the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements.

3.2 Approval of the Treasury Management Strategy Statement is required by the Local Government Act and code of Practices as detailed above and advice has been taken from the Council's Treasury Management advisors, Capita Asset Services, in constructing this strategy.

3.3 The Treasury Management Strategy Statement for 2015/16 reflects the improved stability of the banking sector and the support given by national Governments, as well as a more risk averse approach to the system of credit ratings. The proposed Strategy is influenced by the Capital expenditure plans for 2015/16 and the next 10 years. It can be summarised as follows:

- The Council's Capital Financing Requirement and the potential need to borrow only in relation to the loan to Broadacres Housing Association;
- The minimum revenue provision policy is defined detaining the minimum revenue payments that are required to be made for the borrowing in relation to the Broadacres loan;
- The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;
- Investment of surplus funds can be made to other Local Authorities, nationalised Banks, Banks which are part of the UK banking system support package, as well as other UK Banks and Building Societies, subject to the application of Capita Asset Services' credit worthiness criteria;
- Investments of surplus funds can be made in foreign Banks and institutions of AA sovereign rated countries subject to Capita Asset Services' credit worthiness criteria;

- Limits for all investments to be placed with specified and non specified investments are:

  Individual Limits – These limits will be set at 30% of total investments or £3.0m per counterparty whichever is the higher. There are two exceptions to this policy:

  (a) with counterparties that are backed by the Government – Bank of Scotland, Royal Bank of Scotland, Lloyds, Natwest, Ulster Bank – (and therefore are more secure) there will be a 50% limit or £12m per counterparty whichever is the higher.

  (b) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

  It should be noted that it is expected during 2015/16, that the status of the current counterparties backed by the Government in (a) above may change. If this occurs a report will be brought to Cabinet at the earliest opportunity with the revised limits.

  Group Limits – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. However, if the group limit was the same as the individual limit it would be too restrictive for the placing of investments when applied to our list of approved counterparties. This policy therefore sets the group limit at 60% of fund value. Individual limits for any counterparty within the group will be as stated above. There is one exception to this policy

  (a) where the group is for Government backed institutions the group limit will be 80% of the fund value.

3.5 The Treasury Management Strategy Statement 2015/16 also includes the revised Treasury Management Policy Statement which is attached at Annex 'D' and is recommended to be approved by Cabinet and Council in accordance with the revised CIPFA Treasury Management Code of Practice 2011.

3.6 The Scheme of Delegation and the Role of the S151 Officer (Director of Support Services & Deputy Chief Executive), in relation to Treasury Management, details that those charged with governance are responsible for Treasury Management activities within the organisation, this is attached at Annex 'E' and is recommended to be approved by Cabinet and Council.

3.7 The Prudential and Treasury Management Indicators are detailed in the main body of the Treasury Management Strategy Statement attached at Annex 'C'. It is recommended that the Prudential and Treasury Management indicators are approved by Cabinet and Council.

4.0 LINK TO COUNCIL PRIORITIES:

4.1 This report links to the efficient use of Council resources, where the Capital Programme 2015/16 demonstrates value for money in the implementation of the individual capital schemes and the Treasury Management Strategy Statement ensure the Council maximises its return on investments. Both the Capital Programme and Treasury Management allow more resources to be freed up to invest in the Council's other priorities, values and imperatives.

5.0 **RISK ASSESSMENT:**

5.1 There are two main risks associated with setting the Capital Programme and the Treasury Management Strategy Statement 2015/16:

Risk	Implication	Prob	Imp	Total	Preventative action
Proposed capital schemes for 2015/16 are not assessed for risk prior to the commencement of the schemes	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Capital Scheme Proposal Forms are prepared for each individual capital scheme, including the assessment of risk.
Treasury management function is a high risk area due to the volume and level of large investment money transactions.	The value of the investment could be lost, liquidity of the Council could be reduced and yield not maximised.	3	5	15	The Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required

Prob = Probability, Imp = Impact, Score range is Low = 1, High = 5

6.0 **FINANCIAL IMPLICATIONS:**

6.1 The financial implications are contained within the body of the report.

7.0 **LEGAL IMPLICATIONS:**

7.1 The Council is legally required to set a balanced 3 year Capital Programme budget and Treasury Management Strategy Statement as set out in Local Government Act 2003. This Council has set a 10 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2015/16 and future years. This report provides detail of the Capital programme 2015/15 and also includes the requirements for the Treasury Management Strategy Statement.

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

8.0 **EQUALITY/DIVERSITY ISSUES:**

8.1 Some capital schemes have specific implications for Equalities. The equalities implications of the individual schemes will be assessed by individual departments once the Capital Programme 2015/16 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

9.0 <u>RECOMMENDATIONS</u>:

9.1 It is recommended that Cabinet approves and recommends to Council that:-

1) the 10 year Capital Programme 2015/16 to 2016/17 at £52,554,300 be approved, as detailed in paragraph 2.2 and attached at Annex 'A';

2) The Capital Programme 2015/16 at £37,854,300 detailed in Annex 'B' be approved for implementation;

3) the Treasury Management Strategy attached at Annex 'C' be approved;

4) the Minimum Revenue Provision Policy Statement attached in the body of the Treasury Management Strategy Statement Annex 'C' be approved;

5) the Prudential and Treasury Indicators attached at Annex 'C' in the body of the Treasury Management Strategy Statement be approved;

6) the revised Treasury Management Policy Statement at Annex 'D' be approved;

7) the Scheme of Delegation and role of the S151 Officer attached at Annex 'E' be approved.

JUSTIN IVES

Background papers: None

Author ref: LBW

Contact: Louise Branford-White
Head of Resources
Direct Line No: 01609 767024

REPAIRS AND RENEWALS FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr9	Yr 10	Yr 11	Total
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening balance	(4,082,986)	(3,377,958)	(2,666,958)	(2,169,958)	(2,668,958)	(2,176,958)	(1,635,958)	(1,088,958)	(1,502,958)	(875,958)	(1,264,958)	
Add: Transfers from Taxpayers Reserve	0	0	0	(1,000,000)	0	0	0	(1,000,000)	0	(1,000,000)	0	
Add: Leisure Revenue Budget - Equipment Lease	0	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)						
LESS: Trsf to Computer Fund	100,000											
	(3,982,986)	(3,417,958)	(2,706,958)	(3,209,958)	(2,708,958)	(2,216,958)	(1,635,958)	(2,088,958)	(1,502,958)	(1,875,958)	(1,264,958)	(6,577,958)
EXPENDITURE												
Revenue Repairs	399,350	425,000	435,000	445,000	455,000	465,000	475,000	485,000	495,000	505,000	515,000	4,700,000
Public lighting replacement	69,816	51,000	51,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	390,000
Purchase of bins and boxes for refuse and recycling	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	360,000
Civic Centre- Carpet Replacement	17,000	0	0	0	0	0	0	0	10,000	0		10,000
Civic Centre- Internal Painting	6,000	0	0	0	5,000	0	0	5,000	0	0		10,000
Civic Centre- Window Replacements	10,000	0	0	0	0	0	0	0	0	10,000		10,000
Leisure Equipment Lease Buy	0	200,000	0	0	0	0	0	0	0	0		200,000
Gym equipment refresh	0	24,000	0	24,000	0	24,000	0	24,000	0	24,000		120,000
Pool Tank Tiles Hambleton Leisure Centre	0	0	0	0	0	20,000	0	0	0	0		20,000
Car Parks - Reinstatements	0	0	0	0	0	0	0	0	50,000	0		50,000
Air conditioning - Legislative requirement Leisure	26,862	15,000	15,000	0	0	0	0	0	0	0		30,000
Civic Centre - Backup Generator	40,000											0
TOTAL REPAIRS AND RENEWALS CAPITAL EXP	205,678	326,000	102,000	96,000	77,000	116,000	72,000	101,000	132,000	106,000	72,000	1,200,000
BALANCE ON REPAIRS & RENEWALS FUND	(3,377,958)	(2,666,958)	(2,169,958)	(2,668,958)	(2,176,958)	(1,635,958)	(1,088,958)	(1,502,958)	(875,958)	(1,264,958)	(677,958)	

COMPUTER FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr9	Yr 10	Yr 11	Total
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening balance	(1,698,000)	(1,283,000)	(923,000)	(623,000)	(1,323,000)	(1,023,000)	(723,000)	(1,423,000)	(1,223,000)	(1,023,000)	(1,823,000)	
Add: Transfers from Council Taxpayers Reserve	0	0	0	(1,000,000)	0	0	(1,000,000)	0	0	(1,000,000)	0	
Add: Transfers from from Repairs & Maintenenace	(100,000)											
	(1,798,000)	(1,283,000)	(923,000)	(1,623,000)	(1,323,000)	(1,023,000)	(1,723,000)	(1,423,000)	(1,223,000)	(2,023,000)	(1,823,000)	(4,283,000)
EXPENDITURE												
ICT REVENUE COSTS	40,000	83,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000	650,000
ICT Improvements	355,000	259,900	237,000	237,000	237,000	237,000	237,000	137,000	137,000	137,000	137,000	1,992,900
Web / Intranet Development	120,000	17,100	0	0	0	0	0	0	0	0		17,100
TOTAL ICT CAPITAL EXPENDITURE	515,000	360,000	300,000	300,000	300,000	300,000	300,000	200,000	200,000	200,000	200,000	2,660,000
BALANCE ON COMPUTER FUND	(1,283,000)	(923,000)	(623,000)	(1,323,000)	(1,023,000)	(723,000)	(1,423,000)	(1,223,000)	(1,023,000)	(1,823,000)	(1,623,000)	

CAPITAL RECIEPTS RESERVE		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr9	Yr 10	Yr 11	Total
		14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	
		£	£	£	£	£	£	£	£	£	£	£	£
INCOME													
Capital Receipts Funding b/Fwd		(3,392,784)	(3,068,796)	(2,685,496)	(2,940,396)	(2,848,296)	(2,631,196)	(2,226,096)	(2,149,996)	(2,101,897)	(1,490,797)	(1,442,697)	
Capital Receipts Estimated		(857,707)	(623,000)	(412,000)		0	0	0	0	0	0		
Estimated Grants (DFG)		(166,277)	(220,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	
Estimated Grants (LEP)		0	0	0		0	0	0	0	0	0		
Estimated Grants (s106)		(69,000)	0	0	0	0	0	0	0	0	0		
Estimated Grants (Leisure) (Sport England)		(50,427)	(100,000)	0	0	0	0	0	0	0	0		
Gov FIT- Solar panels				(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	(7,900)	
Total Estimated Capital Receipts		(4,536,195)	(4,011,796)	(3,205,396)	(3,048,296)	(2,956,196)	(2,739,096)	(2,333,996)	(2,257,897)	(2,209,797)	(1,598,697)	(1,550,597)	(5,394,897)
EXPENDITURE													
Disabled Facilities Grants		230,379	270,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	1,620,000
Hambleton All Weather Pitch Refurbishment			131,000	0	0	0	0	0	0	0	0	0	131,000
Car Park Restatements		45,000	27,000	30,000	20,000	0	50,000	0	0	262,000	0	0	389,000
Bedale Gateway Car Park		160,000	0	0	20,000	160,000	262,000	10,000	0	0	0	0	452,000
Hambleton Leisure Centre Improvement Scheme		35,323	275,000	0	0	0	0	0	0	0	0	0	275,000
Adoptions Leeming Bar			150,000	0	0	0	0	0	0	0	0	0	150,000
Car Parks - P&D Machines Replacements			0	0	0	0	0	0	0	140,000	0	0	140,000
Bedale North End Cobbles			0	0	0	0	0	0	0	120,000	0	0	120,000
Hambleton Leisure Centre Wave Machine			0	30,000	0	0	0	0	0	0	0	0	30,000
Civic Centre - Access Card Reader System			0	25,000	0	0	0	0	0	0	0	0	25,000
District Council Boundary Signs			0	0	0	10,000	0	0	0	0	0	0	10,000
Central Depot - Additional Parking			8,000	0	0	0	0	0	0	0	0	0	8,000
Pest Control Vehicle			0	0	0	0	0	0	0	32,000	0	0	32,000
Stokesley Depot - Security Fencing			8,000	0	0	0	0	0	0	0	0	0	8,000
Leisure Centre Automatic Doors			0	30,000	0	0	0	0	0	0	0	0	30,000
New Schemes - 2015/16			457,300	0	10,000	5,000	51,000	24,000	6,000	15,000	6,000	0	574,300
TOTAL CAPITAL RECEIPTSEXPENDITURE		1,467,399	1,326,300	265,000	200,000	325,000	513,000	184,000	156,000	719,000	156,000	150,000	3,994,300
BALANCE ON Capital receipts reserve	#	(3,068,796)	(2,685,496)	(2,940,396)	(2,848,296)	(2,631,196)	(2,226,096)	(2,149,996)	(2,101,897)	(1,490,797)	(1,442,697)	(1,400,597)	

ECONOMIC DEVELOPMENT FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr9	Yr 10	Yr 11	Total
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening Balance	(5,000,000)	(4,500,000)	(4,000,000)	(3,500,000)	(3,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,000,000)	(500,000)	(5,000,000)	
Add: Transfers from Taxpayers Reserve										(5,000,000)		
	(5,000,000)	(4,500,000)	(4,000,000)	(3,500,000)	(3,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,000,000)	(5,500,000)	(5,000,000)	(9,500,000)
EXPENDITURE												
Economic Development Capital Expenditure	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	5,000,000
BALANCE ON ECONOMIC DEVELOPMENT FUND	(4,500,000)	(4,000,000)	(3,500,000)	(3,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,000,000)	(500,000)	(5,000,000)	(4,500,000)	

Cabinet Member/ Responsible Officer	Repairs & Renewals Fund	2015/16 Indicative Value £	Third Party Contribution £	Cost to the Council £	Estimated completion date
Cllr Phillips	**Environmental & Planning Services**				
MJ	Purchase of bins and boxes for refuse and recycling	36,000		36,000	Ongoing
Cllr Fortune	**Customer & Leisure Services**				
DG	Gym equipment refresh	24,000		24,000	Jun-15
DG	Leisure Equipment Lease Buy	200,000	200,000	0	Mar-16
Cllr Knapton	**Support Services**				
JI	Public lighting replacement	51,000		51,000	Mar-16
JI	Air Conditioning - Legislation requirement Corporate	15,000		15,000	Ongoing
JI	Repairs & Renewals - Revenue	425,000		425,000	Mar-16
	Repairs & Renewals Fund Capital Programme 2015/16	**751,000**	**200,000**	**551,000**	

Cabinet Member/ Responsible Officer	Computer Fund	2015/16 Indicative Value £	Third Party Contribution £	Cost to the Council £	Estimated completion date
Cllr Fortune	**Customer & Leisure Services**				
DG	Web / Intranet Development	17,100	0	17,100	Jul-15
Cllr Knapton	**Support Services**				
JI	ICT Improvements	259,900	0	259,900	Mar-16
	Computer Fund Capital Programme 2015/16	**277,000**	**0**	**277,000**	

Cabinet Member/ Responsible Officer	Capital Fund	2015/16 Indicative Value £	Third Party Contribution £	Cost to the Council £	Estimated completion date
Cllr Phillips	**Environmental & Planning Services**				
MJ	Disabled Facilities Grant	270,000	100,000	170,000	Mar-16
MJ	Waste and Street Scene - Telematics	30,000		30,000	Dec-15
MJ	Waste and Street Scene - Training Room	8,000		8,000	Jun-15
MJ	Waste and Street Scene, Central Depot - Dog, Litter Bins	14,000		14,000	Jun-15
MJ	Central Depot - Additional Parking	8,000		8,000	
Cllr Fortune	**Customer & Leisure Services**				
DG	Hambleton Leisure Centre - Fire Alarm System	25,000		25,000	Dec-15
DG	Hambleton Leisure Centre - External Render	8,000		8,000	Sep-15
DG	Hambleton Leisure Centre - Pool Balustrades	15,000		15,000	Dec-15
DG	Hambleton Leisure Centre- Pool Changing Village	85,000		85,000	Mar-16
DG	Hambleton All Weather Pitch Refurbishment	131,000		131,000	Sep-15
DG	Hambleton Leisure Centre Improvement Scheme	275,000		275,000	Mar-16
DG	Bedale Leisure Centre - Boiler and Air Handling Unit	17,000		17,000	Dec-15
DG	Thirsk & Sowerby Leisure Centre - Roof & Ceiling Repairs	11,000		11,000	Sep-15
DG	Stokesley Depot - Security Fencing	8,000		8,000	Sep-15
DG	Forum - Capital Repairs	41,300		41,300	Sep-15
DG	Solar Panels - Civic Centre	87,000		87,000	Mar-16
DG	CCTV Camera Replacement Programme	93,000		93,000	Dec-15
DG	Workspaces - Decoration and Furniture	17,000		17,000	Sep-15
DG	Workspaces Air Con Refurbishments	6,000		6,000	Ongoing
Cllr Knapton	**Support Services**				
JI	Car Park Reinstatements	27,000		27,000	Nov-15
JI	Adoption of Roads - Leeming Bar	150,000		150,000	Mar-16
	Capital Fund Capital Programme 2015/16	**1,326,300**	**100,000**	**1,226,300**	

Cabinet Member/ Responsible Officer	Economic Development Fund	2015/16 Indicative Value £	Third Party Contribution £	Cost to the Council £	Estimated completion date
Cllr Fortune	**Customer & Leisure Services**				
DG	Economic Development Capital Expenditure	500,000		500,000	Ongoing
	Economic Development Capital Programme 2015/16	**500,000**	**0**	**500,000**	

Cabinet Member/ Responsible Officer	Borrowing / Surplus Funds	2015/16 Indicative Value £	Third Party Contribution £	Cost to the Council £	Estimated completion date
Cllr Knapton	**Support Services**				
JI	Loan to Housing Association	35,000,000	35,000,000	0	Mar-16
	Borrowing / Surplus Funds Programme 2015/16	**35,000,000**	**35,000,000**	**0**	

Cabinet Member/ Responsible Officer	Total Capital Programme 2015/16	2015/16 Indicative Value £	Third Party Contribution £	Cost to the Council £	Estimated completion date
Cllr Phillips	**Environmental & Planning Services**	366,000	100,000	266,000	
Cllr Fortune	**Customer & Leisure Services**	1,560,400	200,000	1,360,400	
Cllr Knapton	**Support Services**	35,927,900	35,000,000	927,900	
	Total Capital Programme 2015/16	**37,854,300**	**35,300,000**	**2,554,300**	

ANNEX 'C'

TREASURY MANAGEMENT STRATEGY STATEMENT -
MINIMUM REVENUE POSITION STRATEGY and
ANNUAL INVESTMENT STRATEGY 2015/16

1.0 INTRODUCTION:

1.1 Background

1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first 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.

1.1.2 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.

1.1.3 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

1.2.1 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. In addition quarterly review reports provide a regular update to cabinet.

Prudential and Treasury Indicators and Treasury Strategy (This report)

1.2.2 The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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

1.2.3 This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition, this Council will receive quarterly update reports.

An Annual Treasury Report

1.2.4 This provides details of a selection of actual prudential and treasury indicators, including investment activity, and actual treasury operations compared to the estimates within the strategy.

1.2.5 The above reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by Cabinet.

1.3 **Treasury Management Strategy for 2015/16**

1.3.1 The strategy for 2015/16 covers two main areas:

(a) Capital Issues

- the capital plans and the prudential indicators
- the Minimum Revenue Provision (MRP) policy

(b) Treasury Management Issues

- the current treasury position
- treasury indicators which will 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
- credit worthiness policy
- policy on use of external service providers
- Member training

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and and the Communities and Local Government Minimum Revenue Provision Guidance and also Investment guidance.

2.0 <u>THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18</u>:

2.1 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 Members overview and confirm their understanding of the Capital Programme.

Capital Expenditure

2.2 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.

Capital Expenditure	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total		3,087,427	37,937,300	1,602,000	1,541,000

2.3 <u>Other long term liabilities</u>. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. The Council has no PFI schemes.

2.4 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 need (borrowing). In 2015/16, borrowing may occur only to fund the loan the Council is proposing to make to Broadacres Housing Association.

Capital Expenditure £000	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total		3,087,427	37,937,300	1,602,000	1,541,000
Financed by:					
Capital receipts		1,181,695	1,006,300	157,100	92,100
Capital grants		285,704	320,000	107,900	107,900
Capital reserves		1,620,028	1,571,000	1,297,000	1,301,000
Revenue		0	40,000	40,000	40,000
Net financing need for the year		**-**	**35,000,000**	**-**	**-**

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

2.5 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 and also includes any capital expenditure to be funded from borrowing in future years. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.6 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.

2.7 For the past few years, the CFR has remained at zero as the Council has been debt free and has had no underlying borrowing requirement. In 2015/16, due to the loan to Broadacres Housing Association the CFR will increase by the total amount of that loan. The total amount that can be loaned has been used in the estimate of the CFR as this is the prudent position, as it provides the Council with the flexibility to use borrowing for the total amount of the loan if it chooses to do so but still allows the use of surplus funds. At the time the loan is taken consideration will be given to the Treasury Management environment to ensure that the best option to fund the loan to Broadacres Housing Association is taken.

2.8 The CFR also includes any other long term liabilities (e.g. PFI schemes, 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 currently has no such schemes within the CFR.

2.9 The Council is asked to approve the CFR projections below:-

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement					
CFR – non housing	-	0	35,000,000	35,000,000	35,000,000
CFR - housing	-	0	0	0	0
Total CFR	**-**	**-**	**35,000,000**	**35,000,000**	**35,000,000**
Movement in CFR	**-**	**0**	**35,000,000**	**0**	**0**

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Movement in CFR represented by					
Net financing need for the year (above)	-	0	35,000,000	0	0
Less MRP and other financing movements	-	0	0	0	0
Movement in CFR	**0**	**0**	**35,000,000**	**0**	**0**

Minimum Revenue provision (MRP) Policy Statement

2.10 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. The Minimum Revenue Provision Policy describes that the Council is required to pay off part of the Capital Financing Requirement (the accumulated General Fund capital expenditure) on a regular basis through a revenue charge known as the Minimum Revenue Provision – MRP. This is an amount which the Council deems to be a prudent provision to reduce its borrowing. In addition to MRP, the Council is also allowed to undertake additional voluntary payments if it so decides. This is known as the Voluntary Revenue Provision - VRP.

2.11 This Council in 2015/16 will have a Capital Financing Requirement in relation to the potential borrowing that will occur as a result of the capital expenditure incurred for the loan to Broadacres Housing Association.

2.12 Communities of Local Government (CLG) Regulations have been issued which require the Full Council to approve a **Minimum Revenue Provision (MRP) Statement** in advance of each year. Under guidance issued by CLG, there are four options provided to Councils so each Council can select the most appropriate policy to be adopted, so long as there is a prudent provision. The four options available are listed below. The Council is recommended to approve the following Minimum Revenue Provision Statement*:*

2.13 For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

2.14 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.

2.15 Repayments included in finance leases are applied as Minimum Revenue Provision (MRP), though this Council does not expect to have these repayments in 2015/16 or in the foreseeable future.

2.16 The Capital Financing Requirement for the loan to Broadacres Housing Association will be a maximum of £35,000,000 in 2015/16. In the agreement with Broadacres Housing Association, they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement.

Therefore, if £35,000,000 is loaned to Broadacres in 2015/16, the first time the MRP charge will be made to the revenue account to reduce the level of CFR will be 2019/20 and at regular intervals thereafter.

Core funds and expected investment balances

2.17 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 etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances. Working capital balances (Debtors and Creditors) shown in the table are estimated for year end; these may fluctuate during the year. In 2016/17 and 2017/18 it should be noted that if the Council does not borrow £35,000,000 to fund the Broadacres Housing Association loan and instead uses its own core fund resources, then the 'Expected Investments' balances in the table below would be lower.

Year End Resources £000	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Fund balances / reserves		16,594,871	16,329,284	16,567,545	16,555,605
Capital receipts		3,068,796	2,538,517	2,793,417	2,711,317
Provisions		-	-	-	-
Other		36,333	132,199	39,038	33,078
Total core funds		**19,700,000**	**19,000,000**	**19,400,000**	**19,300,000**
Under/over borrowing		-	-	-	-
Expected investments		**19,700,000**	**19,000,000**	**19,400,000**	**19,300,000**

Affordability Prudential Indicators

2.18 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:

2.19 **Actual and estimates of the ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	-	-	-	-	-

2.20 The estimates of financing costs include current commitments and the proposals in this report. The table shows that there is no ratio between the capital cost and net revenue stream because the borrowing which will potentially be undertaken is for the loan to Broadacres Housing Association. Ultimately this will not be a cost to the Council as the agreement between the Council and Broadacres will cover the costs incurred.

2.21 **Estimates of the 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 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.

2.22 **Incremental impact of capital investment decisions on the Band D Council Tax**

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	£0.00	£0.00	£0.00	£0.00	£0.00

3.0 TREASURY MANAGEMENT STRATEGY:

3.1 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.

3.2 Current Portfolio Position on Borrowing

3.2.1 The Council's treasury portfolio position at 31 March 2014 with forward projections is 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. This Council currently is debt free in 2014/15. In 2015/16 if a loan is made to Broadacres Housing Association then the maximum amount of debt that would be borrowed would be £35,000,000. This is reflected in the table below:

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt					
Debt at 1 April	0	0	35,000,000	35,000,000	35,000,000
Expected change in Debt	0	0	35,000,000	0	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual debt at 31 March	**-**	**-**	**35,000,000**	**35,000,000**	**35,000,000**
The Capital Financing Requirement	**-**	**-**	**35,000,000**	**35,000,000**	**35,000,000**
Under / (over) borrowing	**-**	**-**	**-**	**-**	**-**

Total investments at 31 March					
Investments	**23,950,000**	**19,700,000**	**19,000,000**	**19,400,000**	**19,300,000**
Investment change		-4,250,000	-700,000	400,000	-100,000

Net Debt / (Net Investment)	**(23,950,000)**	**(19,700,000)**	**16,000,000**	**15,600,000**	**15,700,000**

3.2.2 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.

3.2.3 The Director of Support Services & Deputy Chief Executive (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year 2014/15 and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 **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. Prior to 2015/16, the Council was debt free and had no borrowing, however, to give the Council complete flexibility these limits are always set at the beginning of each financial year. In addition to these flexibility requirements in 2015/16 the possibility of borrowing £35,000,000 to fund the loan to Broadacres Housing Association is also included in the operational boundary.

Operational boundary	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
Debt	4,000,000	39,000,000	39,000,000	39,000,000
Other long term liabilities	600,000	600,000	600,000	600,000
Total	**4,600,000**	**39,600,000**	**39,600,000**	**39,600,000**

3.3.2 **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 never yet been exercised.
2. The Council is asked to approve the following Authorised Limit. This limit is set to give the Council complete flexibility and also to encompass the maximum amount of borrowing that could occur for the borrowing in connection with the loan to Broadacres Housing Association:

Authorised limit £000	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
Debt	5,000,000	40,000,000	40,000,000	40,000,000
Other long term liabilities	1,000,000	1,000,000	1,000,000	1,000,000
Total	**6,000,000**	**41,000,000**	**41,000,000**	**41,000,000**

3.4 Prospects for Interest Rates

3.4.1 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 Capita Asset Services central interest rate view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

3.4.2 UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving.

3.4.3 The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

3.4.4 The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Qarter 2 2014 and 5.0% in Quarter 3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

3.4.5 The current economic outlook and structure of market interest rates and government debt yields have several key Treasury Management implications:

- Greece: the General Election on 25 January 2015 brough to power a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely 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.

3.5 **Borrowing Strategy for 2015/16**

3.5.1 The Council in 2014/15 is debt free, however in 2015/16 a loan to Broadacres would increase the Council's capital expenditure and therefore there may be the requirement to undertake borrowing to support this. The maximum amount of borrowing that would be incurred is £35,000,000. Alternatively, the Council may choose to use some of its surplus funds to fund the loan to Broadacres Housing Association and if this occurred the Council would be maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), will not be 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.

3.5.2 If the Council does undertake borrowing then interst rates will be viewed from 1 year to 50 years, in accordance with the interest rates available from the markets as well as the Governments Public Works Loans Board. For 2015/16 interest rates span between 5 years at 2.2% and 25 or 50 years at 4%. The interest rates trend is to increase across all years as the 2015/16 year progresses. Therefore, in the currnet volatile money market, the borrowing target rate for 2015/16 is set at 3.8%. External borrowing will be considered throughout the financial year when interest rates seem most favourable.

3.5.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Director of Finance 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.

Any decisions will be reported to the appropriate to Cabinet at the next available opportunity.

Treasury Management Limits on Activity

3.5.3 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 in place to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

3.5.3 The Council is asked to approve the following treasury indicators and limits in the table below. These limits take into account the potential borrowing of £35,000,000 to fund the loan to Broadacres Housing Association and also provide the flexibility for additional borrowing where there may be a rare occasion when overnight temporary borrowing needs to occur. It should be noted that at this stage options have been left open when borrowing will occur for the loan to Broadacres due to the current volatility in the market.

	2015/16	**2016/17**	**2017/18**
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	108%	116%	122%
Limits on variable interest rates based on net debt	-8%	-16%	-22%
Limits on Fixed Interest Rates:			
• **Debt only**	100%	100%	100%
• **Investments Only**	90%	90%	90%
Limits on Variable Interest Rates			
• **Debt only**	10%	10%	10%
• **Investments Only**	50%	50%	50%
Maturity Structure of interest rate borrowing 2014/15			
		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 to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	100%

3.6 Policy on Borrowing in Advance of Need

3.6.1 In 2015/16 borrowing is likely to occur to fund the loan to broadacres Housing Association but not for any other purpose as in 2014/15 and the previous year the Council has been debt free. It is not anticipated therefore that there will be a need to borrow in advance of need during 2015/16. If the Council does borrow in advance of need it 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.

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

3.7 Debt Rescheduling

3.7.1 The Council up to 2014/15 has no debt outstanding and therefore does not need to consider debt rescheduling as part of this Strategy.

3.8 Municipal Bond Agency

3.8.1 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to Local Authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority could therefore potentially make use of this new source of borrowing as and when appropriate to fund all or part of the borrowing for the loan to Broadacres Housing Association.

3.9 Annual Investment Strategy

3.9.1 **Investment Policy –**

3.9.2 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

3.9.10 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.

3.9.11 The Council's Treasury Management Advisor – Capita Asset Services – advises the Council on creditworthiness methodology which uses creditcritaria from the three main rating agencies (Fitch, Moody's and Standard & Poor's). The main rating agencies, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required in this Investment Strategy.

3.9.12 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

3.9.13 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

3.9.14 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

3.9.15 As a result of these rating agency changes, the credit element of the future rating methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise credit default swap prices as an overlay to ratings in the new methodology.

3.9.16 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

3.9.17 As with previous practice, ratings will 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 Capita Asset Services – its Treasury Managment Advisors - to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

3.9.18 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.

3.9.19 Investment instruments identified for use in the financial year are listed in Annex C1 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's Treasury Management practices – schedules.

3.9.20 With regards to counterparty limts and the amount of surplus funds to be placed with any one counterparty or group of counterparties, specific advice has been taken from the Council's Treasury Management Advisors (Capital Asset Services) due to the difficulty in placing surplus funds in the current economic environment. Therefore the Counterparty limits are detailed as follows:

- **Individual Limits** – These limits will be set at 30% of total investments or £3.0m per counterparty whichever is the higher. There are two exceptions to this policy:

  (a) with counterparties that are backed by the Government – Bank of Scotland, Royal Bank of Scotland, Lloyds, Natwest, Ulster Bank – (and therefore are more secure) there will be a 50% limit or £12m per counterparty whichever is the higher.

  (b) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

3.9.21 It should be noted that it is expected during 2015/16, that the status of the current counterparties backed by the Government in (a) above may change. If this occurs a report will be brought to Cabinet at the earliest opportunity with the revised limits.

- **Group Limits** – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. However, if the group limit was the same as the individual limit it would be too restrictive for the placing of investments when applied to our list of approved counterparties. This policy therefore sets the group limit at 60% of fund value. Individual limits for any counterparty within the group will be as stated above. There is one exception to this policy:

  (a) where the group is for Government backed institutions the group limit will be 80% of the fund value.

3.10 Creditworthiness policy

3.10.1 This Council applies the creditworthiness service provided by Capita Asset Services – the Council's Treasury Management Advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

3.10.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- 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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

3.10.3 Our creditworthiness service uses a wider array of information than just primary ratings and using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

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

3.10.5 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our 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 spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

3.10.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting Government.

3.11 Country Limits

3.11.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent), other than the UK where the Council has set no limit. The list of countries that qualify using this AAA credit criteria, as at the date of this report, are shown in Annex C2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

3.11.2 On 22 February 2013, the UK lost its AAA sovereign rating and is now rated AA+. However, following advice from Capita Asset Services, the Council's Treasury Management Advisors, the Council will still operate with UK counterparties.

3.11.3 The Council has determined that, other than the United Kingdom where no limit will applies, a maximum of 30% of total investments or £3.0m whichever is the lower will be invested in a single institution of a AAA sovereign rated country

3.11.4 In addition, this policy restricts the total of investments in foreign countries to 40% of the total investments.

3.12 **Investment Strategy**

3.12.1 **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).

3.12.2 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/2016 0.75%
- 2016/2017 1.25%
- 2017/2018 2.00%
- 2016/2017 1.25%

3.12.3 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.

3.12.4 The suggested budgeted investment earnings rates for returns on investments placed forperiods up to 100 days during each financial year for the next eight years are as follows:

- 2015/16 0.60%
- 2016/17 1.25%
- 2017/18 1.75%
- 2018/19 2.25%
- 2019/20 2.75%
- 2020/21 3.00%
- 2021/22 3.25%
- 2022/23 3.25%
- Later years 3.50%

3.12.5 **Invesment Treasury Indicator and Limit** - total principal funds invested for greater than 364 days. 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.

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

Maximum principal sums invested > 364 days			
£000	**2015/16**	**2016/17**	**2017/18**
Principal sums invested > 364 days	£9,000,000	£9,000,000	£9,000,000

3.12.7 For its cash flow generated balances, the Council will seek to utilise its Business Reserve Instant Access and Notice accounts, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

3.13 **Investment Risk Benchmarking –** The Council is a member of Capital Asset Services Treasury Management Benchmarking Club to assist in the measuring of Treasury Management performance which enables comparison with other Council's for risk and return. This will be reported to Memebrs on a quarterly basis during the 2015/16 financial year.

3.14 **End of year investment report -** At the end of the 2015/16 financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.1 **Policy on the Use of External Service Providers** – the Council uses Capital Asset services as its external Treasury Management advisors. The Council recognises that responsibility for Treasury Management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It is also recognised 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.

4.2 **Member Training** – Members with responsibility for Treasury Management will be provided with training in Treasury management. This especially applies to Members responsible for scrutiny. This training can be carried out by Council Officers and / or Capita Asset Services - the Council's Treasury Management advisors. The training needs of Treasury Management officers are also periodically reviewed.

ANNEX C1

TREASURY MANAGEMENT PRACTICE – TMP1
CREDIT AND COUNTERPARTY RISK MANAGEMENT
- SPECIFIED AND NON-SPECIFIED INVESTMENTS AND LIMITS

1.0 SPECIFIED INVESTMENTS:

1.1 All such investments will be sterling denominated, with **maturities up to maximum of 1 year,** meeting the minimum 'high' quality criteria where applicable.

2.0 NON-SPECIFIED INVESTMENTS:

2.1 These are any investments which do not meet the Specified Investment criteria. A maximum of 80% will be held in aggregate in non-specified investment

3.0 INVESTMENT INSTRUMENTS:

3.1 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

3.2 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

A) – SPECIFIED

Institution / Counterparty	***Minimum 'High' Credit Criteria***	***Use***
Debt Management Agency Deposit Facility	UK Sovereign rating	In-house
Term deposits – local authorities	UK Sovereign rating	In-house
Term deposits – banks and building societies	Coded: Orange on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house
UK Part nationalised banks	Coded: Blue on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers

Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Coded: Blue on Capital Asset Services' Matrix. Fitch's rating: Long-term AAA, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers
Collateralised deposit	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies	F Coded: Orange on Capital Asset Services' Matrix / Fitch's rating: UK sovereign rating or Short-term F1+, Long-term AA or equivalent rating from Standard& Poors and Moodys	In-house and Fund Mangers
UK Government Gilts	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Coded: Orange on Capital Asset Services' Matrix / Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK Government	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK Government)	Coded: Orange on Capital Asset Services' Matrix / Sovereign rating	In-house buy and hold and Fund Managers
Treasury Bills	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	Fund Managers

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Short-term F1, Long-term AAA	In-house and Fund Managers
2. Money Market Funds	Short-term F1, Long-term AAA	In-house and Fund Managers
3. Enhanced cash funds	Short-term F1, Long-term AAA	In-house and Fund Managers
4. Bond Funds	Long-term AAA	In-house and Fund Managers
5. Gilt Funds	Long-term AAA	In-house and Fund Managers
6. Property Funds	Long-term AAA	In-house and Fund Managers

NON-SPECIFIED INVESTMENTS*:*
A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Institution / Counterparty	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – banks and building societies	Coded: red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	80%	3-6 Months
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	40%	1 Year
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house buy and hold and Fund Managers	30%	1 Year

Commercial paper issuance covered by a specific UK Government explicit guarantee	UK Sovereign rating	In-house and Fund Managers	30%	1 Year
Commercial paper other	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	30%	1 Year
Corporate Bonds	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	1 Year
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Managers	30%	1 Year
Floating Rate Notes: the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank	Long-term AAA	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Property fund: the use of these investments would constitute capital expenditure	--	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure

2. Maturities in excess of 1 year

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	30%	> 1 year
Term deposits – banks and building societies	Coded: Purple (2yrs)) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house	30%	> 1 year
Certificates of deposits issued by banks and building societies covered by UK explicit Government guarantee	UK Sovereign	In house and Fund Managers	30%	> 1 year
Certificates of deposits issued by banks and building societies	Coded: Purple(2yrs) on Capital Asset Services' Matrix / Short-term F1+, Long-term AA-	In house and Fund Managers	30%	> 1 year
UK Government Gilts	UK Sovereign rating	In-house and Fund Managers	30%	> 1 year
Bonds issued by multilateral development banks	Long term AAA	In-house and Fund Managers	30%	> 1 year
Sovereign bond issues (i.e. other than the UK Government)	Long term AAA	In-house and Fund Managers	30%	> 1 year
Collective Investment Schemes structure as open Ended Investment Companies (OEICs)				
1. Enhanced Cash Money Market Funds (Credit score of 1.25)	Coded: Dark Pink (5yrs) on Capital Asset Services' Matrix Short-term F1, Long-term AAA Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	> 1 year

2. Enhanced Cash Money Market Funds (Credit score of 1.5)	Coded: Light Pink (5yrs) on Capital Asset Services' Matrix Short-term F1, Long-term AAA Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	> 1 year
3. Bond Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year
4. Gilt Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year

4.0 ACCOUNTING TREATMENT OF INVESTMENTS:

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

4.2 All forward deposits that are made will take into acount the maximum maturity period limits detailed in the tables above. If a forward deposit is made, the forward period plus the deal period should not exceed one year in aggregate.

ANNEX C2

APPROVED COUNTRIES FOR INVESTMENT
Current List as at 7 January 2015

Capita Asset Services has advised that Councils should only use approved counterparties from countries with a minimum sovereign credit rating determined by the Council. This Council has determined that it will only use those countries with the sovereign rating of AAA other than the UK where the Council has set no limit. This list will be monitored at least weekly (and for information purposes only, includes other sovereign ratings)

Based on lowest available rating

AAA

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

AA+

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

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

ANNEX 'D'

THE TREASURY MANAGEMENT POLICY STATEMENT & CLAUSES TO BE FORMALLY ADOPTED

Clauses to be formally adopted

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

    - a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its Treasury Management activities;

    - suitable Treasury Management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

    The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation (i.e. Full Council) will receive reports on its Treasury Management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Support services & Deputy Chief Executive (S151 Officer), who will act in accordance with the organisation's policy statement and TMPs.

4. This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

The Treasury Management Policy Statement

This organisation defines its Treasury Management activities as:

1. The management of the organisation'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. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

ANNEX 'E'

TREASURY MANAGEMENT SCHEME OF DELEGATION

APPENDIX: Treasury management scheme of delegation

(i) Full Council

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

(ii) Cabinet

- approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices (recommendations to Council)
- budget consideration and approval (recommendations to Council)
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- receiving and scrutinizing annual treasury management strategy, annual outturn, quarterly reports and also adhoc reports on treasury management policies, practices and activities

(iii) Audit and Governance Committee

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

(iv) Director of Resources (Section 151 Officer)

- Reviewing the treasury man management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the Council to the Director of Resources who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 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