HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2014

Subject: **2014/15 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS 2014/15**

All Wards

Portfolio Holder for Resources: Councillor R Kirk

1.0 PURPOSE AND BACKGROUND:

1.1 The 10 year Capital Programme 2014/15 to 2023/24 was approved at Cabinet on 3 December 2013, following the approval by Cabinet of the Financial Strategy 2014/15 to 2023/24 on 5 November 2013. It is a legal requirement to ensure that the capital programme is affordable, sustainable and prudent over a 3 year period and the Financial Strategy sets the fiscal parameters for funding the capital programme over 10 years. The financial strategy ensures that there are sufficient reserve funds and capital receipts available over a 10 year period so that the Council can continue with its principle of not borrowing to finance capital expenditure.

1.2 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.

1.3 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.

1.4 This report seeks approval for
- (a) the capital programme for the coming financial year 2014/15, which is informed by the 10 year capital programme
- (b) the revised 10 year capital programme 2014/15 to 2023/24
- (c) the treasury management strategy statement 2014/15
- (d) the prudential and treasury indicators 2014/15

2.0 2014/15 CAPITAL PROGRAMME BUDGET

2.1 The 10 year capital programme 2014/15 to 2023/24 approved by Cabinet on 5 November 2013 detailed capital expenditure at £13,168,155 which was funded by reserves, contributions and capital receipts of £15,656,453. This showed that the 10 year capital programme was affordable sustainable and prudent over a 10 year period, leaving a balance of funding of £2,488,298.

2.2 Since the approval of the 10 year capital programme, the 2013/14 capital expenditure has reduced, further capital receipts / contributions are estimated to be received and increased schemes have been included in the 2014/15 capital programme. Therefore the 10 year capital expenditure stands at £13,208,155 an increase of £40,000 which is to be funded from £16,494,209, leaving a balance of funding of £3,286,054.

2.3 The increase of £40,000 capital expenditure in 2014/15 is reflected in the decision made by Cabinet on 3 December 2013 to include the installation of a backup generator at the civic centre. It should also be noted that the 2014/15 capital expenditure has reduced by £63,000 and moved to a future year in the 10 year capital plan as the Bedale Station and Pedestrian Bridge scheme will not occur during the next financial year.

2.4 The 10 Year Capital programme 2014/15 to 2023/24 splits the capital programme into 3 sections which relate to the reserve funding of the capital programme:

	£
Repairs and Renewals Fund	5,850,155
Computer Fund	2,843,000
Capital Receipts Reserve	4,515,000
	13,208,155

2.5 The capital programme 2014/15 totals 1,985,350 and is funded from the 3 reserves as follows:

	£
Repairs and Renewals Fund	766,350
Computer Fund	475,000
Capital Receipts Reserve	744,000
	1,985,350

2.6 The capital programme 2014/15 is attached at Annex A. 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 detailed below:-

- 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 will be presented to Cabinet in March 2014.

2.9 The 10 year Capital Programme approved by Cabinet on 3 December 2013, the 2014/15 capital programme, will be used to inform the Treasury Management Strategy and the calculation of the prudential indicators for approval by Cabinet and Council on 18 February 2014 along with the Council Tax Setting report.

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 2014/15. 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 B. 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;
- Clearly states that the Council's priority 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

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 2014/15 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 can be summarised as follows:

- The Council is debt free and it is anticipated that no borrowing will occur during 2014/15 or subsequent years;
- The minimum revenue provision policy is defined but due to the Council being debt free no minimum revenue payments are required to be made.
- 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 AAA 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 which ever 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.

  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 2014/15 also includes the revised Treasury Management Policy Statement which is attached at Annex C 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 Resources) 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 D 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 B. It is recommended 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 2014/15 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 2014/15:

Risk	Implication	Prob	Imp	Total	Preventative action
Proposed capital schemes for 2014/15 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 and are attached in Annex A1-A22
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 approved at cabinet on 3 December 2013 to assist with medium term financial planning, budget and council tax setting for 2014/15 and future years. This report provides detail of the Capital programme 2014/15 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 2014/15 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

9.0 RECOMMENDATIONS:

9.1 It is recommended to Council that:-

1) the capital programme 2014/15 detailed in Annex A be approved for implementation;

2) the revised 10 year Capital Programme be approved, as detailed in paragraph 2.2

3) the Treasury Management Strategy attached at Annex B be approved

4) the Prudential and Treasury Indicators attached at Annex B in the body of the Treasury Management Strategy Statement be approved

5) the revised Treasury Management Policy Statement at Annex C be approved

6) the scheme of delegation and role of the s151 officer attached at Annex D be approved

JUSTIN IVES

Background papers:

Author ref: LBW

Contact: Louise Branford-White
Finance Manager
Direct Line No: 01609 767024

Capital Programme Schemes 2014/15 | **ANNEX A**

Cabinet Member/ Responsible Officer	Repairs & Renewals Fund Capital Schemes	2014/15 Indicative Value £	Third Party Contribution £	Cost to the Council £	Ongoing Revenue (Savings) / Costs per year £	Estimated completion date
Cllr Philips	**Housing, Planning and Waste Management**					
MJ	Purchase of bins and boxes for refuse and recycling	36,000	0	36,000	0	2014/15
Cllr Mrs Shepherd	**Leisure and Health**					
DG	Leisure Equipment Lease Buy	200,000	200,000	0	0	2014/15
DG	Air Conditioning - Legislation requirement leisure	15,000	0	15,000	0	2014/15
Cllr Napton	**Customer Services and Asset Management**					
MR	Public lighting replacement	51,000	0	51,000	0	2014/15
MR	Revenue Repairs and Renewals	399,350	0	399,350	0	2014/15
Cllr Wilkinson	**Support Services and Economic Development**					
MR	Civic Centre - Carpet Replacement	10,000	0	10,000	0	2014/15
MR	Civic Centre - Internal Painting	5,000	0	5,000	0	2014/15
MR	Civic Centre - Window Replacements	10,000	0	10,000	0	2014/15
MR	Civic Centre - Backup Generator	40,000	0	40,000	600	2014/15
	Repairs & Renewals Fund Capital Programme 2014/15	766,350	200,000	566,350	600	

Cabinet Member/ Responsible Officer	Computer Fund Capital Schemes	2014/15 Indicative Value £	Third Party Contribution £	Cost to the Council £	Ongoing Revenue (Savings) / Costs per year £	Estimated completion date
Cllr Wilkinson	**Support Services and Economic Development**					
JI	ICT Improvements	375,000	0	375,000	0	2014/15
JI	Web / Intranet Development	100,000	0	100,000	0	2014/15
	Computer Fund Capital Programme 2014/15	475,000	0	475,000	0	

Cabinet Member/ Responsible Officer	Capital Receipts Reserve Capital Schemes	2014/15 Indicative Value £	Third Party Contribution £	Cost to the Council £	Ongoing Revenue (Savings) / Costs per year £	Estimated completion date
Cllr Philips	**Housing, Planning and Waste Management**					
MJ	Central depot external lighting improvements	20,000	0	20,000	365	2014/15
MJ	Central Depot - Security Fencing	8,000	0	8,000	0	2014/15
MJ	Disabled Facilities Grant	150,000	100,000	50,000	0	2014/15
Cllr Mrs Shepherd	**Leisure and Health**					
DG	Hambleton All Weather Pitch Refurbishment	131,000	19,000	112,000	0	2014/15
DG	Stokesley All Weather Pitch Refurbishment	11,000	0	11,000	0	2014/15
DG	Hambleton Leisure Centre Improvement Scheme	20,000	0	20,000	0	2015/16
DG	All Leisure Centres - Digital Transaction Software	24,000	0	24,000	0	2014/15
Cllr Napton	**Customer Services and Asset Management**					
MR	Car Park Restatements	45,000	0	45,000	0	2014/15
MR	Car Parks - Thirsk Cobbles	75,000	0	75,000	0	2014/15
MR	Bedale Gateway Car Park	20,000	0	20,000	2,000	2014/15
MR	Adoptions - Thirsk Phases 2 & 3	200,000	0	200,000	0	2014/15
MR	Adoptions - Electric Bollards - Thirsk & Northallerton	40,000	0	40,000	0	2014/15
	Capital Receipts Reserve Capital Programme 2014/15	744,000	119,000	625,000	2,365	

Cabinet Member/ Responsible Officer	Total Capital Programme 2014/15	2014/15 Indicative Value £	Third Party Contribution £	Cost to the Council £	Ongoing Revenue (Savings) / Costs per year £	Estimated completion date
Cllr Philips	**Housing, Planning and Waste Management**	214,000	100,000	114,000	365	2014/15
Cllr Mrs Shepherd	**Leisure and Health**	401,000	219,000	182,000	0	2014/15 & 2015/16
Cllr Napton	**Customer Services and Asset Management**	830,350	0	830,350	2,000	2014/15
Cllr Wilkinson	**Support Services and Economic Development**	540,000	0	540,000	600	2014/15
	Total Capital Programme 2014/15	1,985,350	319,000	1,666,350	2,965	

ANNEX B

TREASURY MANAGEMENT STRATEGY STATEMENT - MINIMUM REVENUE POSITION STRATEGY and ANNUAL INVESTMENT STRATEGY 2014/15

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. 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. These reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by 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.

1.3 Treasury Management Strategy for 2014/15

1.3.1 The strategy for 2014/15 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

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 THE CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17:

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

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.

2.3

Capital Expenditure £000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Total	1,128,686	2,480,600	1,985,350	1,522,959	1,715,833

2.3 Other long term liabilities. 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). Hambleton District Council is debt free and it is not anticipated that borrowing will occur in the foreseeable future.

Capital Expenditure £000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Total	1,128,686	2,480,600	1,985,350	1,522,959	1,715,833
Financed by:					
Capital receipts	743,151	1,436,718	645,000	466,000	765,000
Capital grants	342,428	328,717	119,000	200,000	100,000
Capital reserves		715,165	1,021,350	856,959	850,833
Revenue	43,107	-	200,000	-	-
Net financing need for the year	**-**	**-**	**-**	**-**	**-**

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. 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. The CFR remains at zero as the Council is debt free, has no underlying borrowing requirement from the past and is not anticipated to borrow in the foreseeable future.

If there was a balance outstanding on the CFR, the CFR would not increase indefinitely as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR 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.

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

£000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement					
CFR – non housing	-	-	-	-	-
CFR - housing	-	-	-	-	-
Total CFR	**-**	**-**	**-**	**-**	**-**
Movement in CFR	**-**	**-**	**-**	**-**	**-**
Movement in CFR represented by					
Net financing need for the year (above)	-	-	-	-	-
Less MRP and other financing movements	-	-	-	-	-
Movement in CFR	**-**	**-**	**-**	**-**	**-**

Minimum Revenue provision (MRP) Policy Statement

2.8 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. However, Hambleton District Council is debt free and therefore the minimum revenue provision will be zero. Under statute, the minimum revenue provision describes that the Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

2.9 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. This is required even though the Council is debt free. Under statute, there are 4 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 Council is recommended to approve the following Minimum Revenue Provision Statement*:*

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.

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.

2.10 Repayments included in annual Public Finance Initiatives (PFI) or finance leases are applied as Minimum Revenue Provision (MRP), though this Council does not expect to have these repayments in 2014/15 or in the foreseeable future.

Core funds and expected investment balances

2.12 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.

Year End Resources £000	**2012/13 Actual**	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
Fund balances / reserves	17,818,277	15,912,022	15,796,737	14,618,403	14,064,561
Capital receipts	4,643,892	4,103,074	3,915,074	3,899,074	3,430,174
Provisions	-	-	-	-	-
Other	-462,169	-15,096	88,189	-17,477	5,265
Total core funds	**22,000,000**	**20,000,000**	**19,800,000**	**18,500,000**	**17,500,000**
Under/over borrowing	-	-	-	-	-
Expected investments	**22,000,000**	**20,000,000**	**19,800,000**	**18,500,000**	**17,500,000**

Affordability Prudential Indicators

2.13 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:

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

%	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	-	-	-	-	-

The estimates of financing costs include current commitments and the proposals in this report. This indication is zero because the Council has no borrowing.

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.

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

£	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council tax - band D	£0.05	£0.07	£0.22	£0.13	£0.47

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 2013 with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. This Council is debt free and it is not anticipated to borrow in the forseeable future, teherfore the currnet and future debt position is zero.

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
External Debt					
Debt at 1 April	-	-	-	-	-
Expected change in Debt	-	-	-	-	-
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Actual debt at 31 March	-	-	**-**	**-**	**-**
The Capital Financing Requirement	-	-	**-**	**-**	**-**
Under / (over) borrowing	**-**	**-**	**-**	**-**	**-**

Total investments at 31 March					
Investments	**22,000,000**	**21,500,000**	**20,000,000**	**19,100,000**	**17,800,000**
Investment change	(500,000)	(1,500,000)	(900,000)	(1,300,000)	

Net Debt (Net Investment)	**22,000,000**	**21,500,000**	**20,000,000**	**19,100,000**	**17,800,000**

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 2014/15 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 Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future as the Council does not anticipating to borrow in the foreseeable 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. The Council has no borrowing and does not expect to borrow for the foreseeable future, however to give the Council complete flexibility these limits are set at the beginning of each financial year.

Operational boundary £m	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	4,000	4,000	4,000	4,000
Other long term liabilities	600	600	600	600
Total	**4,600**	**4,600**	**4,600**	**4,600**

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, even though the Council is debt free and does not intend to borrow in the foreseeable future. This limit is set to give the Council complete flexibility:

Authorised limit £000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	1,000	1,000	1,000	1,000
Total	**6,000**	**6,000**	**6,000**	**6,000**

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		
		5 year	25 year	50 year
March 2014	0.50	2.50	4.40	4.40
June 2014	0.50	2.60	4.50	4.50
Sept 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
March 2015	0.50	2.80	4.60	4.70
June 2015	0.50	2.80	4.70	4.80
Sept 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
March 2016	0.50	3.10	5.00	5.10
June 2016	0.75	3.20	5.10	5.20
Sept 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
March 2017	1.25	3.40	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main Capital Asset Services', services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below Consumer Prices Index (CPI) inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any 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 Gross Domestic Product (GDP) ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. 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 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. 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 even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- 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 2014/15

3.5.1 The Council is currently debt free and it is anticipated that there will be no capital borrowings required during 2014/15 or the foreseeable future. However, the Council will always endeavour to finance its capital programme in the most economically advantageous way and will consider all options including borrowing. Should borrowing become a preferred option, a report will be brought to Members.

Treasury Management Limits on Activity

3.5.2 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. It should be noted that as the Council is debt free and it is not anticipated to take borrowing in the foreseeable future only fixed investment interest rates have been stated. With regards to the maturity structure of borrowing there may be a very rare occasion when overnight temporary borrowing occurs, so an upper limit of 100% has been set.

£000	2014/15	2015/16	2016/17
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on Fixed Interest Rates: • **Investments Only**	90%	90%	90%
Limits on Variable Interest Rates • **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%	0%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years to 20 years		0%	0%
20 years to 30 years		0%	0%
30 years to 40 years		0%	0%
40 years to 50 years		0%	0%

3.6 Policy on Borrowing in Advance of Need

3.6.1 The Council is currently debt free and therefore does not anticipate to borrow in advance of need during 2014/15. 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 has no debt outstanding and therefore does not need to consider debt rescheduling as part of this Strategy.

3.8 Annual Investment Strategy

3.8.1 Investment Policy

3.8.2 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.

3.8.3 In accordance with guidance from the CLG 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 accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agengy. Using the Capita Asset Services ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

3.8.4 Furthermore, 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. This is fully integrated into the credit methodology provided by the Council's advisors, Capita Asset Services, in producing their creditworthiness colour codings matrix which show the varying degrees of suggested credit ratings for counterparties. Further details of Capital Assrt Services' Cfreditwothiness policy adopted by the Council is detailed below.

3.8.5 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.

3.8.6 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

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

3.8.10 Investment instruments identified for use in the financial year are listed in Annex B1 under the 'Specified' and 'Non-Specified' Investment categories.

3.8.11 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 advisers (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 teherfore are more secure) there will be a 50% limit or £12m per counterparty which ever 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.

- **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.

3.9 **Creditworthiness policy**

3.9.1 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:-

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

3.9.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of 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 *
- Dark Pink 5 years for Enhanced money market funds (EMMF's) with a credit score of 1.25
- Light Pink 5 years for Enhanced money market funds (EMMF's) with a credit score of 1.5
- Purple 2 year
- 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

* this category is for UK Government debt or its equivalent, constant Net Asset Value money market funds and collateralised deposits where the collateral is UK Government debt.

The green limit was formerly for 3 months but the Financial Conduct Authority set a requirement in July 2013 for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.

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

3.9.4 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of A-, and a Support rating of 1. 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.

3.9.5 All credit ratings will be monitored weekly. The Council is alerted daily 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 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.

3.9.6 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 government support for banks and the credit ratings of that government support.

3.10 **Country Limits**

3.10.1 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 there is no limit. The list of countries that qualify using this AAA credit criteria, as at the date of this report, are shown in Annex B2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

3.10.2 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.

3.10.3 The Council has determined that, other than the United Kingdom where no limit will apply, 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

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

3.11 **Investment Strategy**

3.11.1 **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).

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

- 2013/2014 0.50%
- 2014/2015 0.50%
- 2015/2016 0.50%
- 2016/2017 1.25%

3.11.3 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 to optimistic.

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

2014/15	0.50%
2015/16	0.50%
2016/17	1.00%
2017/18	2.00%

3.11.5 **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.

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

Maximum principal sums invested > 364 days			
£000	**2014/15**	**2015/16**	**2016/17**
Principal sums invested > 364 days	£10,000,000	£9,000,000	£8,900,000

3.11.7 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.

3.12 **Investment Risk Benchmarking –** The Council is a member of Capital Asset Services treasury management benchmarking club to assit 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 baiss duriong the financial year.

3.13 **Policy on the Use of External Service Providers** – the Council uses Capital Asset services as its external treasury management advisers. 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 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.

3.14 **Member Training** - Training will be provided to Members on Treasury Management, in particular regarding their role, responsibility and scrutiny, by both Council Officers and Capita Asset Services, the Council's Treasury Management advisors.

ANNEX B1

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-, Individual B, Support 2 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-, Individual B, Support 2 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

Institution / Counterparty	***Minimum 'High' Credit Criteria***	***Use***
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-, Individual B, Support 2 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 govt)	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

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
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-, Support 2 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-, Support 2	In house and Fund Managers	30%	> 1 year

Institution / Counterparty	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
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 govt)	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 B2

APPROVED COUNTRIES FOR INVESTMENT
Current List as at 13 January 2014

Capita Asset Services has advised that each Council 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 highest sovereign rating of AAA. 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**
- **Finland**
- **Germany**
- **Luxembourg**
- **Norway**
- **Singapore**
- **Sweden**
- **Switzerland**

AA+

- Netherlands
- Hong Kong
- USA
- UK

AA

- Abu Dhabi (UAE)
- Qatar
- France

AA-

- Belgium
- Saudi Arabia

Annex C

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 Resources (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 D

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