Report of the Director of Finance to the meeting of Governance and Audit Committee to be held on 20 March 2015.

Subject:

AK

Treasury Management Policy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy 2014/15.

Summary statement:

This report shows the Council's Treasury Strategy for borrowing for the three financial years commencing 2014/15 and the Annual Investment Strategy for 2014/15

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Portfolio:
Leader

Overview & Scrutiny Area:

Corporate

Treasury Management Policy Statement , Minimum Revenue Provision Strategy and Annual Investment Strategy 2014/15

1 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

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

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

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.
An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 covers two main areas:

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

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

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

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

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 The Capital Prudential Indicators 2015/16 – 2017/18

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

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital expenditure	92	113	86	54	31

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need (the Capital Financing Requirement)

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

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

The 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 £204m of such schemes within the CFR.

£m	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
CFR	**688**	**697**	**696**	**706**	**701**

2.3 Minimum revenue provision (MRP) policy statement

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 Council is required to state as part of its budget process the policy for determining its MRP. The policy Full Council adopted on 26th February 2014 was that the MRP be calculated on the equal instalments method as the most beneficial to the Council in setting the capital budget and it is proposed that Full Council continue with this policy. In detail the policy provides that :-

a) Supported Borrowing MRP continues to be based on 4% of the Capital Financing Requirement – that is, the capital expenditure financed from borrowing – as required by legislation.

b) Unsupported or prudential borrowing MRP is based on the Asset Life method –that is, the expenditure financed from borrowing is divided by the expected asset life. For schemes funded before 31st March 2012 the MRP is calculated on the annuity basis and for schemes funded after 1st April 2012 the MRP is calculated on an equal instalment t basis.

c) Since 2009/10 the appropriate financing costs for the Council's Building Schools for the Future (BSF) and Private Finance Initiative (PFI) schemes have been included in MRP calculations, adjusted as relevant where the estimated asset life is different to the PFI contract life and financing period.

2.4 Affordability prudential indicators

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

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.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Ratio	13.8%	14.5%	15.4%	14.9%	15.9%

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

2.5 Incremental impact of capital investment decisions on council tax

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

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	0	0	0	0

3 Borrowing

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

3.1 Current Treasury position

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

£m	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
External Debt					
Debt at 1 April	418	418	392	349	333
Expected change in Debt	0	(26)	(43)	(16)	0
Other long-term liabilities (OLTL)	204	202	200	198	196
Expected change in OLTL	(2)	(2)	(2)	(2)	(2)
Actual gross debt at 31 March	620	592	547	529	527
The Capital Financing Requirement	688	697	696	706	701
Under / (over) borrowing	68	105	149	177	174

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	420	380	360	360
Other long term liabilities	220	220	220	220
Total	640	600	580	580

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

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

Authorised limit £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	440	420	380	380
Other long term liabilities	240	240	240	240
Total	680	660	620	620

3.3 Prospects for interest rates

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	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

UK Gross Domestic Product (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,under the stimulative effect of the fall in oil prices.. There still 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 Consumer Price Inflation (CPI) inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 0.3% in January, and it could even turn negative in the first half of 2015.This will further increase 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.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3,followed by a cooler 2.6% in Q4(overall 2.4% for 2014 as a whole). 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.

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 brought to power a coalition which is strongly anti EU austerity. However if this should 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 gauge.

- 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 , have led to a resurgence of those concerns as risks increase that it could be heading into a prolonged period of deflation and 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 and early 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The opening weeks of 2015 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality as a result of the Greek situation and the start of a huge programme of quantitative easing(purchase of Eurozone government debt),by the ECB in January 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.

3.4 Borrowing strategy

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

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:

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments and is set at +20%.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates which is set at 175%.

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

£m	2015/16	2016/17	2017/18
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	+175%	+175%	+175%
Limits on variable interest rates based on net debt	+20%	+20%	+20%
Maturity structure of fixed interest rate borrowing 2015/16			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	50%
5 years to 10 years		0%	50%
10 years to 20 years		0%	50%
20 years to 30 years		20%	90%
30 years to 40 years		20%	90%
40 years to 50 years		20%	90%
Maturity structure of variable interest rate borrowing 2015/16			
		Lower	Upper
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	20%
5 years to 10 years		0%	20%
10 years to 20 years		0%	20%
20 years to 30 years		0%	20%
30 years to 40 years		0%	20%
40 years to 50 years		0%	20%

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

3.6 Debt rescheduling

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

The reasons for any rescheduling to take place will include:

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

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

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

Municipal Bond Agency 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 may make use of this new source of borrowing in the future.

4 ANNUAL INVESTMENT STRATEGY

4.1 Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. 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

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.

To incorporate the potential that some entities may see rates fall as a result of implied support removal (not due to weaking of its credit fundimental).We are introducing a modest change to the lowest credit rating criteria.Details given in paragraph 4.3 of this report.

Investment policy

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

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.

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 its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

Investment instruments identified for use in the financial year are listed in Appendix 1 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness policy

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

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

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

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

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

  and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):
  - i. Short Term – Fitch F1 S& P A-1 or above
  - ii. Long Term – Moody's Aa3
- Banks 2 –same as Bank 1 apart from a Moody's rating of A1

- Banks 3 – The four main UK Clearing banks HSBC, Barclays, Lloyds and RBS and their subsidiaries .The UK government rating is used.
- Banks 4 – At least one of Moody's A3, Fitch F1 or S & P A-1.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee and has the necessary ratings outlined above. .
- Money market funds – Aaa Moody's, Fitch or S & P
- Local authorities, parish councils etc
- Co-op Bank temporary basis. Limit exposure as much as possible.

A limit of 20% will be applied to the use of non-specified investments

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

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

		Money Limit	Time Limit
Banks 1		**£30m**	**2yrs**
Banks 2		**£20m**	**1yrs**
Banks 3		**£60m**	**2yrs**
Banks 4		**£7m**	**100 days**
Co-op Bank temporary until alternative banking arrangements can be made			**Day exposure**
Debt Management Office		**unlimited**	**6 months**
Local authorities		**£20m**	**2yrs**

The proposed criteria for specified and non-specified investments are shown in Appendix 1 for approval.

4.3 Changes to Treasury Policy

Due to the issues raised in paragraph 4.1 it is proposed to make the following change to the Treasury Policy

The present criteria is:

Bank or Building Society with all of the following Moody's rating of A2,Fitch F1 and S & P A-1,investment period of 3 months with a limit of £7million

New criteria

Bank or building Society with at least one of the following Moody's A3, Fitch F1 and S & P A-1, investment period 100 days with a limit of £7 million.

4.4 Country Limits

The council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.5 Investment strategy

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

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

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

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.

The suggested budgeted investment earnings rates for returns on investments placed for periods 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%

Investment 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.

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

Maximum principal sums invested > 364 days			
£m	**2015/16**	**2016/17**	**2017/18**
Principal sums invested > 364 days	£20m	£20m	£20m

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 to100 days) in order to benefit from the compounding of interest.

4.6 End of year investment report

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

5. Options

5.1 None

6. Financial and Resources Appraisal

6.1 The financial implications are set out in section 1,2,3 and 4

7. Risk Management

7.1 None

8. Legal Implications

8.1 Any relevant implication considerations are set in the report

9. Other Implications

9.1 Equal Rights implications – no direct implications
9.2 Sustainability implications – no direct implications
9.3 Green house Gas Emissions Impact – no direct implications
9.4 Community safety implications – no direct implications
9.5 Human Rights Act – no diret implications
9.6 Trade Unions – no direct implications
9.7 Ward Implications – no direct implications

10. Not for publications documents – none

11 Recommendations

11.1. That the changes to the Treasury policy set out in section 4.3 be noted by the Governance and Audit Committee and passed to full council for adoption.

12. Appendices

Appendix 1 Specified and Unspecified Investments
Appendix 2 Approved countries for investments
Appendix 3. Treasury management scheme of delegation
Appendix 4 The treasury management role of the section 151 officer

Appendix 1

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with **maturities up to maximum of 1 year.**

	Minimum Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Moody's Aa3 ,Fitch F1 and S & P A-1 or above	In-house
Term deposits – banks and building societies	Moody's A1 ,Fitch F1 and S & P A-1 or above	In-house
Term deposits – banks and building societies	At least one of Moody's A3 ,Fitch F1 and S & P A-1 or above	In-house

	Minimum Credit Criteria	Use
Term Deposits HSBC, Barclays, RBS, Lloyds and subsidiaries	UK sovereign rating	In-house
Certificate of deposit issued by banks and building societies covered by UK Government(explicit) guarantee	UK sovereign rating	In-house
Certificate of deposit issued by banks and building societies	Moody's Aa3 Fitch F1 and S & P A-1 or above	In-house
Certificate of deposit issued by banks and building societies	Moody's A1 ,Fitch F1 and S & P A-1 or above	In-house
Certificate of deposit issued by banks and building societies	At least one of Moody's A3 ,Fitch F1 and S & P A-1 or above	In-house
Certificate of deposit issued by one of UK four main clearing banks	UK sovereign rating	In-house
Money Market Funds	AAA either Moody's Fitch or S & P	In-house
Treasury Bills	UK sovereign rating	In house

NON-SPECIFIED INVESTMENTS: A maximum of 20% will be held in aggregate in non-specified investment

1. Maturities of ANY period

	Minimum Credit Criteria	**Use**
Term deposits with unrated counterparties : with unconditional guarantee from parent	At least one of Moody's A3 Fitch F1 S & P A-1	In-house
Co-op specific Account	Until the Director of Finance can find alternative arrangements	In-house Accountancy

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use		Max. maturity period
Term deposits – local authorities	--	In-house		2 Years
Term deposits – banks and building societies	Moody's Aa3 Fitch F1 S & P A-1	In-house		2 Years
Certificates of deposit issued by banks and building societies	Moody's Aa3 Fitch F1 S & P A-1	In-house		2 Years
Term deposits or Certificate of deposits – issued by one of 4 main clearing banks.	UK sovereign rating	In-house		2 years

APPENDIX 2: Approved countries for investments

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

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

AA
- France

AA-
- Belgium

APPENDIX 3: Treasury management scheme of delegation

(i) Full Council

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

(ii) Governance and Audit Committee.

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

(iii) Internal Audit

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

APPENDIX 4 The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- 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;
- Appointment of external service providers.