Rother District Council **Agenda Item: XX**

Report to	-	Cabinet
Date	-	15 February 2016
Report of the	-	Executive Director of Resources
Subject	-	Treasury Management Strategy Statement and Annual Investment Strategy

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Recommendation to COUNCIL: That:

1) the Treasury Management Strategy as set out at Appendix A be approved;

2) the Minimum Revenue Provision Policy Statement 2016/17 shown at Appendix A, be approved;

3) the Annual Investment Strategy for 2016/17 as set out in Appendix B be approved, as submitted;

4) the specified and non-specified investment categories listed in Appendix 3 of the Annual Investment Strategy be approved; and

5) the Prudential and Treasury Indicators as set out in Appendix A, be approved.

Service Manager: Robin Vennard
Lead Cabinet Members: Councillors Maynard and Lord Ampthill

Introduction

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 for, 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."

Reporting Requirements

2. 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 the treasury strategy is meeting the initial strategy or whether any policies require revision. In addition, the Council will receive quarterly update reports.

   An **Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates set out within the initial and Mid-Year strategies.

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

Treasury Management Strategy for 2016/17

3. The Strategy for 2016/17 covers two main areas:

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

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

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

The Strategy is set out in **Appendix A**.

Annual Investment Strategy

4. The Annual Investment Strategy sets out the Council's investment priorities which promote security first, liquidity second, and finally return. In order to minimise the risk to investments, the Council stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. The strategy is set out in **Appendix B** to this report.

Expected Investment Returns 2016/17

5. The Treasury Management Strategy suggests that Bank Rate will not be increasing until Quarter 4 2016, and even then increases are anticipated to be limited to stepped increases of 0.25%, reaching 1.75% in Quarter 1 2019. The Revenue Budget assumes a return of £135,000 in 2016/17 based on an average interest rate and the expected use of resources to support the Capital Programme and the Revenue Budget.

Training

6. 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. Training was undertaken by Members in xxxxxx and further training will be taking place during 2016/17. The training needs of treasury management officers are periodically reviewed.

Conclusion

7. The strategies proposed in this report, together with the interest rates forecast, are in line with the assumptions made when preparing the 2016/17 Revenue Budget. The costs of treasury operations are contained within the 2016/17 draft Revenue Budget reported elsewhere on this agenda.

8. It is clear that low interest rates will continue to dominate the markets in the coming year. Officers in conjunction with treasury advisors will seek to achieve the best return whilst retaining the security of the investment. This will, however, mean returns are likely to remain at minimal levels in 2016/17.

Malcolm Johnston
Executive Director of Resources

Risk Assessment Statement
Failure to produce a Treasury Management Strategy Statement would mean that the Council would not be complying with the CIPFA Treasury Management and Prudential Codes of Practice and may, therefore, be at risk of making inappropriate investments – leading to a potential major loss of resources – or setting capital expenditure targets that would not be affordable for the Council.

Treasury Management Strategy for 2016/17

1. The Strategy for 2016/17 covers two main areas:

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

   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;
   - the investment strategy;
   - creditworthiness policy; and
   - policy on use of external service providers.

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

The Capital Prudential Indicators 2016/17 – 2018/19

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

   Capital Expenditure. This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of the budget cycle.

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

   There are a number of projects contained in the Corporate Plan that have no funding identified. The current policy is that schemes that are unfunded will not be released until funding is agreed. For this reason, at the time of writing this report, no shortfall of funding is shown.

Capital Expenditure £m	**2014/15 Actual £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**
Total Capital Expenditure	2,158	2,696	700	701	637
Financed by:					
Capital receipts	382	1,328	70	71	72
Capital grants	1,172	777	565	565	565
Capital Reserves					
Revenue	474	441	65	65	
Section 106	130	150			
Net financing need for the year	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

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

4. 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 asset's life.

The CFR also includes "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 does not have any "other long-term liabilities" within its CFR.

Due to the limited scope of the current Capital Programme it is expected that the Council's CFR projections will be zero of the foreseeable future as shown in the table below:

£m	**2013/14 Actual**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
Capital Financing Requirement					
Total CFR	Nil	Nil	Nil	Nil	Nil
Movement in CFR	Nil	Nil	Nil	Nil	Nil

Movement in CFR represented by					
Net financing need for the year (above)	Nil	Nil	Nil	Nil	Nil
Less MRP/VRP and other financing movements	Nil	Nil	Nil	Nil	Nil
Movement in CFR	Nil	Nil	Nil	Nil	Nil

Minimum Revenue Provision (MRP) Policy Statement

5. 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).

   CLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. **This is required even though the Council currently has a nil CFR.** A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement for capital expenditure incurred before 1 April 2008 or which, in the future, will be Supported Capital Expenditure. The MRP policy will follow the existing practice outlined in former CLG regulations.

   From 1 April 2008 for all unsupported borrowing (including PFI and finance leases), the MRP policy will be based on the **Depreciation method** – MRP will follow standard depreciation accounting procedures thus providing a reduction in the borrowing need over approximately the asset's life.

Core funds and expected investment balances

6. 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 on-going impact on investments unless resources are supplemented each year from new sources (e.g. capital receipts from 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	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Fund balances / reserves	8,646	9,055	8,979	9,304	8,998
Capital receipts	2,481	2,138	2,003	1,887	1,835
Other	866	866	866	866	866
Total core funds	**11,993**	**12,059**	**11,848**	**12,057**	**11,699**
Working capital*	1,000	1,000	1,000	1,000	1,000
Under/over borrowing	Nil	Nil	Nil	Nil	Nil
Expected investments	**12,993**	**13,059**	**12,848**	**13,057**	**12,699**

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

Affordability Prudential Indicators

7. 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:

Ratio of financing costs to net revenue stream

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

%	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Non-HRA	-1%	-1%	-1%	-1%	-1%

The estimates of financing costs include current commitments and the proposals in the Revenue Budget report.

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

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

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council Tax - Band D	£0.16	£0.32	£0.02	£0.02	£0.00

Treasury Management Strategy

10. The capital expenditure plans set out earlier 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 management of short and long-term cashflows 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.

11. The Council has a nil CFR and does not have any actual borrowing either now or currently planned. As such there is no difference between the actual external debt position against the underlying capital borrowing need (CFR). If the proposed Leisure Centre project in Bexhill is viable this position may change and this Strategy will need to be updated to reflect the funding sources which may include borrowing.

12. 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 2016/17 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.

13. The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

14. **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed, but it may be marginally lower or higher depending on day to day cashflow and in-year funding requirements.

Operational boundary	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Debt	15,000	15,000	15,000	15,000
Other long term liabilities	0	0	0	0
Total	**15,000**	**15,000**	**15,000**	**15,000**

15. **The authorised limit for external debt.** A further key prudential indicator, this represents a control on the maximum level of borrowing that may be undertaken in total. 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.

- 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.

- The Council is asked to approve the following authorised limit:

Authorised limit	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Debt	17,000	17,000	17,000	17,000
Other long term liabilities	0	0	0	0
Total	**17,000**	**17,000**	**17,000**	**17,000**

Prospects for Interest Rates

16. 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 their central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Now	0.50%	1.85%	3.29%	3.11%
Mar 16	0.50%	2.00%	3.40%	3.20%
Jun 16	0.50%	2.10%	3.40%	3.20%
Sept 16	0.50%	2.20%	3.50%	3.30%
Dec 16	0.75%	2.30%	3.60%	3.40%
Mar 17	0.75%	2.40%	3.70%	3.50%
Jun 17	1.00%	2.50%	3.70%	3.60%
Sept 17	1.00%	2.60%	3.80%	3.70%
Dec 17	1.25%	2.70%	3.90%	3.80%
Mar 18	1.25%	2.80%	4.00%	3.90%
Jun 18	1.50%	2.90%	4.00%	3.90%
Sept 18	1.50%	3.00%	4.10%	4.00%
Dec 18	1.75%	3.10%	4.10%	4.00%

As at 27 January 2016

18. A more detailed interest rate view and economic commentary is at Appendix 2, although it should be noted this is based on information received in November 2015.

Borrowing Strategy

19. Currently there are no plans to borrow in 2016/17. In the event that borrowing becomes necessary to meet the approved commitments of the Capital Programme, further reports will be made to Members and necessary amendments to this Strategy made.

20. In the event that borrowing is required the Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

21. Any decisions will be reported to the Audit Committee.

Policy on borrowing in advance of need

22. 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.

Appendix B

Annual Investment Strategy

Investment Policy

1. 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 and then return.

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

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

4. As with previous practice, ratings will not be the sole determinant of the quality of an institution and 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. Using the Capita Asset Services ratings service, potential counterparty ratings are monitored on a real time basis with any changes notified electronically to the Council as soon as the rating agencies make any amendments.

5. Other information sources used will include the financial press, share prices 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.

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

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

7. Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'specified' and 'non-specified' investments categories.

Counterparty limits will be as set through the Council's treasury management practices – schedules.

Creditworthiness Policy

8. 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;
- CDS spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

9. 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 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 (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

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

	Colour (and long term rating where applicable)	£limit or % of Fund Limit	Time Limit
Banks *	yellow	10%	5yrs
Banks	purple	10%	2 yrs
Banks	orange	20%	1 yr
Banks – part nationalised	blue	30%	1 yr
Banks	red	50%	6 mths
Banks	green	50%	100 days
Banks	No colour	Not to be used	N/A
Limit 3 category – Council's banker (not meeting Banks 1)	Not applicable	unlimited / 100%	1 day
Other institutions limit	-	£3m / 10%	5yrs
DMADF	AAA	unlimited	6 months
Local authorities	n/a	20%	3yrs
Money market funds	AAA	30%	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	50%	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	50%	liquid

10. The 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.

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

All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of Capita's 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; and
- 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 the downgrade of an institution or its removal from the Council's lending list.

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

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.

11. There may be occasions that the Council has invested in a counterparty that subsequently falls below the minimum ratings required. For fixed term deposits it is likely that the Council will allow the investment to mature and will not withdraw its funding unless there are extreme circumstances. In all situations the Section 151 Officer and Executive Director of Resources will take the best course of action to protect the value of the investment based on advice received from the Council's treasury advisors. This is a sensible and practical way to manage the Council's investments at a difficult economic time.

Country limits

12. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

13. The Council's available funds will be spread among different counterparties in order to minimise the risk of loss.

Investment Strategy
In-house funds

14. 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

15. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Quarter 4 2016 by 0.25% to 0.75%. By March 2019 Bank rate is forecast to be 1.75%. Bank Rate forecasts for financial year ends (March) are:

Year	Interest Rate
March 2016	0.5%
March 2017	0.75%
March 2018	1.25%
March 2019	1.75%

16. The draft revenue budget includes a gross return on treasury activities of £135,000. Depending on decisions made by Members during 2016/17 to deal with the loss of Government Funding, cash available for invesment may decline. The Investment Strategy will be reviewed and updated to take account of these decisions. Capita Asset Services suggest the following returns should be achievable in subsequent financial years:

2017/18 1.50%
2018/19 2.00%
2019/20 2.25%
2020/21 2.50%
2021/22 3.00%
2022/23 3.00%
Later years 3.00%

17. **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.

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

Maximum principal sums invested > 364 days			
	2016/17	**2017/18**	**2018/19**
Principal sums invested > 364 days	5,000,000	5,000,000	5,000,000

19. For 2016/17, the Council has budgeted for an investment return of approximately 0.65% based on current performance.

20. For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 15 and 30 day notice accounts, money market funds and short-dated deposits (overnight to three, six and nine months) in order to benefit from the compounding of interest.

Investment risk benchmarking

21. This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month LIBID uncompounded. Three months is broadly comparable to the normal duration of the Council's investments The expected return for 2016/17 is currently 0.45%.

End of year investment report

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

Policy on the use of external service providers

22. The Council uses Capita Asset Services, Treasury solutions (formerly known as "Sector") as its external treasury management advisors.
23. 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.

24. 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.

Scheme of delegation

25. Please see Appendix 5.

Role of the Section 151 Officer

26. Please see Appendix 6.

Appendices

1. Interest Rate Forecasts
2. Economic Background
3. Treasury Management Practice – Credit and Counterparty Risk
4. Approved Countries for Investments
5. Treasury Management Scheme of Delegation
6. The Treasury Management Role of the Section 151 Officer

Interest Rate Forecasts – Capita Asset Services and Capital Economics

	Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
			5 year	25 year	50 year
Capita	Mar 16	0.50%	2.00%	3.40%	3.20%
Capital Economics		0.50%	2.60%	3.35%	3.40%
Capita	Jun 16	0.50%	2.10%	3.40%	3.20%
Capital Economics		0.75%	2.70%	3.45%	3.50%
Capita	Sept 16	0.50%	2.20%	3.50%	3.30%
Capital Economics		0.75%	2.80%	3.45%	3.50%
Capita	Dec 16	0.75%	2.30%	3.60%	3.40%
Capital Economics		0.75%	3.00%	3.55%	3.60%
Capita	Mar 17	0.75%	2.40%	3.70%	3.50%
Capital Economics		1.00%	3.10%	3.65%	3.70%
Capita	Jun 17	1.00%	2.50%	3.70%	3.60%
Capital Economics		1.00%	3.20%	3.75%	3.80%
Capita	Sept 17	1.00%	2.60%	3.80%	3.70%
Capital Economics		1.00%	3.30%	3.85%	3.90%
Capita	Dec 17	1.25%	2.70%	3.90%	3.80%
Capital Economics		1.25%	3.50%	3.955	4.00%
Capita	Mar 18	1.25%	2.80%	4.00%	3.90%
Capital Economics		-	-	-	-
Capita	Jun 18	1.50%	2.90%	4.00%	3.90%
Capital Economics		-	-	-	-
Capita	Sept 18	1.50%	3.00%	4.10%	4.00%
Capital Economics		-	-	-	-
Capita	Dec 18	1.75%	3.10%	4.10%	4.00%
Capital Economics		-	-	-	-

Appendix 2

Economic Background

Capita Asset Services View (November 2015)

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 2.1% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures.

However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 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.

Appendix 3

Treasury Management Practice – Credit and Counterparty Risk

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

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 following categories:

	Minimum Credit Criteria	Maximum of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	100%	6 months
Term deposits – local authorities	--	20%	3 years - subject to guidance
UK banks and building societies	Refer to Creditworthiness Policy	100%	1 year
Term deposit - UK banks and building societies	Refer to Creditworthiness Policy	100%	1 year
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Refer to Creditworthiness Policy	100%	1 year
Term deposit - Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Refer to Creditworthiness Policy	100%	1 year
UK Government Gilts	UK sovereign rating	50%	1 year subject to guidance
Bonds issued by multilateral development banks	AAA	20%	6 months subject to guidance
Sovereign bond issues (other than the UK government)	AAA	20%	1 year subject to guidance
Money Market Funds	AAA	20%	Liquid – subject to guidance
Bond Funds	AAA	20%	1 year subject to guidance
Treasury Bills	UK sovereign rating	20%	1 year subject to guidance

Non-specified investments: –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments (the guidance does not specify sterling so its inclusion is optional for English authorities) with:

	Non Specified Investment Category	Limit (£ or %)
a.	Supranational bonds greater than 1 year to maturity (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail, the Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings (or other of your choice)
b.	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£3m
c.	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	
d.	Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £xx, but will restrict these type of investments to £3m	£3m – 10% of fund
e.	Any bank or building society that has a meets the credit worthy policy for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	As per credit worthiness policy
f.	Any non rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to Member approval following receipt of appropriate specialist advice.	Specific authorisation required from Members
g.	Share capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital	Specific authorisation required from

	resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	Members
h.	Loan capital in a body corporate. See note 1 below. Please put criteria in if being considered	Specific authorisation required from Members
i.	Bond funds. See note 1 below. Please put criteria in if being considered	Specific authorisation required from Members
j.	Property funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	Specific authorisation required from Members

NOTE 1. The Council will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are…… (Insert the local criteria and include the procedures for determining the maximum periods for investments. Again include the effect of multilateral development banks and fund managers).

Appendix 4

Approved Countries for Investments

Based on lowest available rating

AAA

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

AA+

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

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

Appendix 5

Treasury Management Scheme of Delegation

(i) Full Council

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

(ii) Cabinet

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

(iii) Audit Committee (or successor Committee)

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

(iv) Executive Director of Resources and Service Manager for Finance and Welfare (Section 151 Officer)

- In the event that a counterparty, subsequent to an investment being made, falls below the minimum ratings required the following action is delegated to the Executive Director of Resources or in his absence the Section 151 Officer;
- Fixed term deposits – allow the investment to mature and not withdraw its funding unless advised otherwise by the Council's treasury advisors; and
- In all situations the Section 151 Officer and Executive Director of Resources will take the best course of action to protect the value of the investment based on advice received from the Council's treasury advisors.

Appendix 6

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer duties include:

- 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