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Deputy Chief Executive

Agenda Item 22(c)

Report to Executive Board

Date: 10th February 2016

Subject: TREASURY MANAGEMENT STRATEGY 2016/17

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☑ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☑ No
Is the decision eligible for Call-In? Except recommendation 6.2 to 6.5	☑ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☑ No

Summary of main issues

1. This report sets out for Members' approval the Treasury Management Strategy for 2016/17, and also provides an update on the implementation of the 2015/16 strategy.

2. The Council's level of net external debt is anticipated to be £1,526m by 31/03/16, £51m above expectations in November 2015. This is as a result of a reduction in revenue balances used internally to finance the councils borrowing need. This additional borrowing is expected to be contained within current budget and the outturn is therefore expected to be in line with the budget before MRP.

3. The 2016/17 strategy continues to fund the borrowing requirement from short term low interest rates, balances and reserves whilst still allowing the Council to take advantage of longer term funding opportunities. The low rate funding environment is expected to continue to the end of 2016 when the first bank rate increase is now forecast. Whilst the cost of debt is forecast to increase by £1,354k before MRP adjustments are taken into account, in overall terms the 16/17 debt budget will see no increase despite the additional funding requirement of the capital programme.

4. To reflect the increased capital programme borrowing requirement net of debt repayments, the Authorised Limits for both External Debt and Other Long Term Liabilities have been reviewed and increased to reflect the current forecast of debt and borrowing positions together with the decrease in revenue balances. The operational boundaries have also been reviewed and still retain sufficient headroom to accommodate anticipated cashflow variances. The Council's Authorised limit is set below the capital financing requirement reflecting that the Council is using its balance sheet strength to fund a proportion of is borrowing requirement.

5. The strategy of defraying longer term funding will increase the amount of debt that the Council is funding from short terms loans and its balance sheet to £534m at 31/03/2016. This exposure is expected to increase if the low interest rate environment persists. The Council is mitigating this risk by acquiring longer term loans when market opportunities arise and looking at forward funding opportunities. Against this the Council has a stable long term loan portfolio of £1.4bn that has an average maturity of 38 years and is funded at less than 4.2%. An increase in the short term funding costs of 0.25% would add £638k to the interest costs in 2016/17.

6. The report also includes an updated Treasury Management Policy Statement for approval. The main change reflects the updated officer delegation scheme.

7. Recommendations

That the Executive Board:

7.1 Approve the treasury strategy for 2016/17 as set out in Section 3.3 and note the review of the 2015/16 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

7.2 The borrowing limits for 2015/16, 2016/17, 2017/18 and 2018/19 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits.

7.3 The treasury management indicators for 2015/16, 2016/17, 2017/18 and 2018/19 be set as detailed in Section 3.5.

7.4 The investment limits for 2015/16, 2016/17, 2017/18 and 2018/19 be set as detailed in Section 3.6.

7.5 The revised Treasury Management Policy Statement is adopted.

1 Purpose of this report

1.1 This report sets out for approval by Members the Treasury Management Strategy for 2016/17 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2015/16.

2 Background information

2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities as amended 2011, in particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

3 Main Issues

3.1 Review of Strategy and Borrowing Limits 2015/16

3.1.1 The current debt forecasts are given in Table 1 below, which shows that net external borrowing is now expected to be £1,526m by the end of 2015/16. This is £51m more than anticipated in November and is as a result of a reduction in revenue balances used internally to finance the councils borrowing need. A capital programme update is included as a separate agenda item.

Table 1

ANALYSIS OF BORROWING 2014/15		2015/16 Feb 15 Report £m	2015/16 Nov 15 Report £m	2015/16 This Report £m
Net Borrowing at 1 April		1,419	1,406	**1,406**
New Borrowing for the Capital Programme – General Fund		102	131	**120**
New Borrowing for the Capital Programme – HRA		0	0	**0**
Debt redemption costs charged to Revenue (Incl HRA)		(48)	(48)	**(36)**
Reduced/(Increased) level of Revenue Balances		(14)	(14)	**36**
Net Borrowing at 31 March*		1,459	1,475	1,526
Capital Financing Requirement				**1,892**
* Comprised as follows				
Long term borrowing	Fixed	1,262	1,358	1,358
	Variable (less than 1 Year)	110	0	0
	New Borrowing	40	69	70
Short term Borrowing		57	54	110
Total External Borrowing		1,469	1,481	1,538
Less Investments		10	6	12
Net External Borrowing		**1,459**	**1,475**	**1,526**
% gross borrowing exposed to interest rate risk		14%	8%	12%

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

3.1.2 The UK Economy slowed in 2015 but still performed solidly with preliminary full year outturn for GDP growth of 2.20%. This growth is however still being driven by strong consumer demand and the rebalancing of the economy towards exporting remains a tough challenge due to significant headwinds. These headwinds have taken the form of an appreciation in sterling together with weak growth in the EU, China and emerging markets.

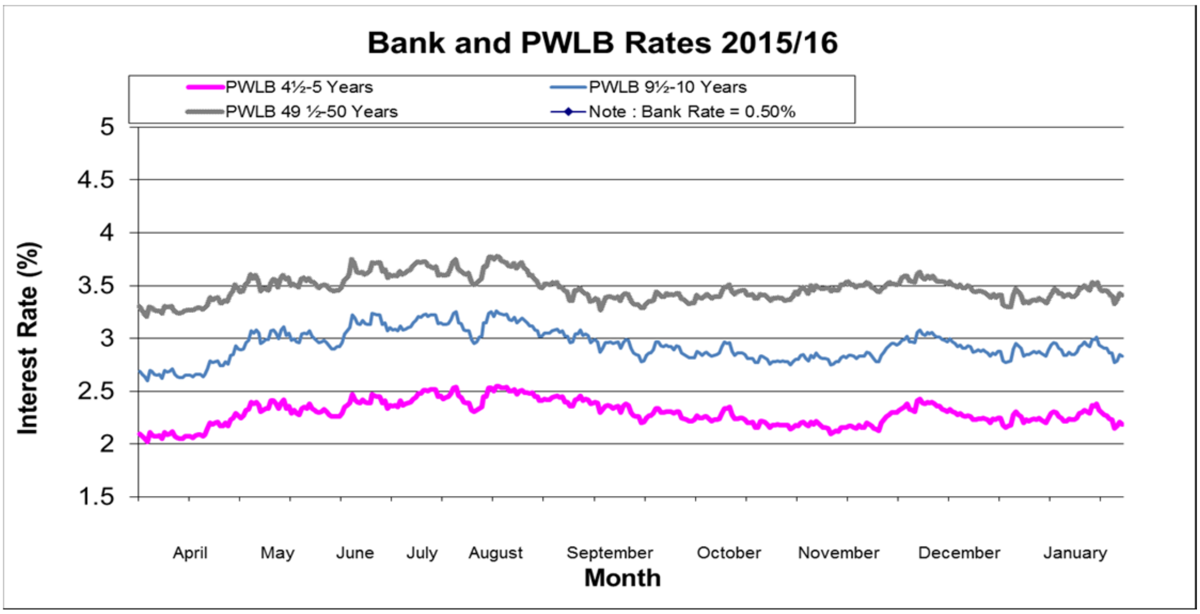
3.1.3 During the year Inflation fell quickly to around 0% and has remained at this level subsequently. The BOE inflation report in November was forecasting that inflation would only just reach its 2% target over the 2 year time horizon and inflation expectation therefore remain subdued. Even though this makes the MPC's desire to raise base from its current 0.5% level more difficult, most commentators expect that rates will begin to rise this year and the Councils advisors are forecasting Q4 2016 for the first rise in base rate.

3.1.4 In the Eurozone, the ECB has followed the US/UK path of beginning its own Quantitative Easing (QE) programme of €1.1trn. This began in March 2015 at €60bn per month and has been extended from its initial end date of September 2016 to March 2017. The ECB has also cut its deposit facility rate from -0.20% to -0.30%. These measures are designed to help the recovery of confidence of both businesses and consumers, and therefore to help stimulate economic growth in the region. Greece again took centre stage during the summer as the latest bail-out package was established.

3.1.5 US growth has been strong during 2015 albeit after a slow start and has recorded figures of 3.90% annualised in Quarter 2 and 2% in Quarter 3. The US Federal Reserve Bank was expected to begin increasing the FED rate in September but pulled back from this and did eventually increase its rate in its December meeting. This delay was on the back of downbeat news from China, Japan and emerging markets as well as disappointing non-farm payroll numbers in August and September. Subsequently these figures have been revised upwards and the December figure was a solid increase of £293k.

3.1.6 The Council's treasury advisors' latest forecasts for Quarter 1, 2016 are that PWLB rates for 25 to 50 year borrowing will be around 3.40%, 10 year borrowing around 2.60% and 5 Year at 2.00%. Yields are expected to rise although the path and timing remain very uncertain.

Chart 1

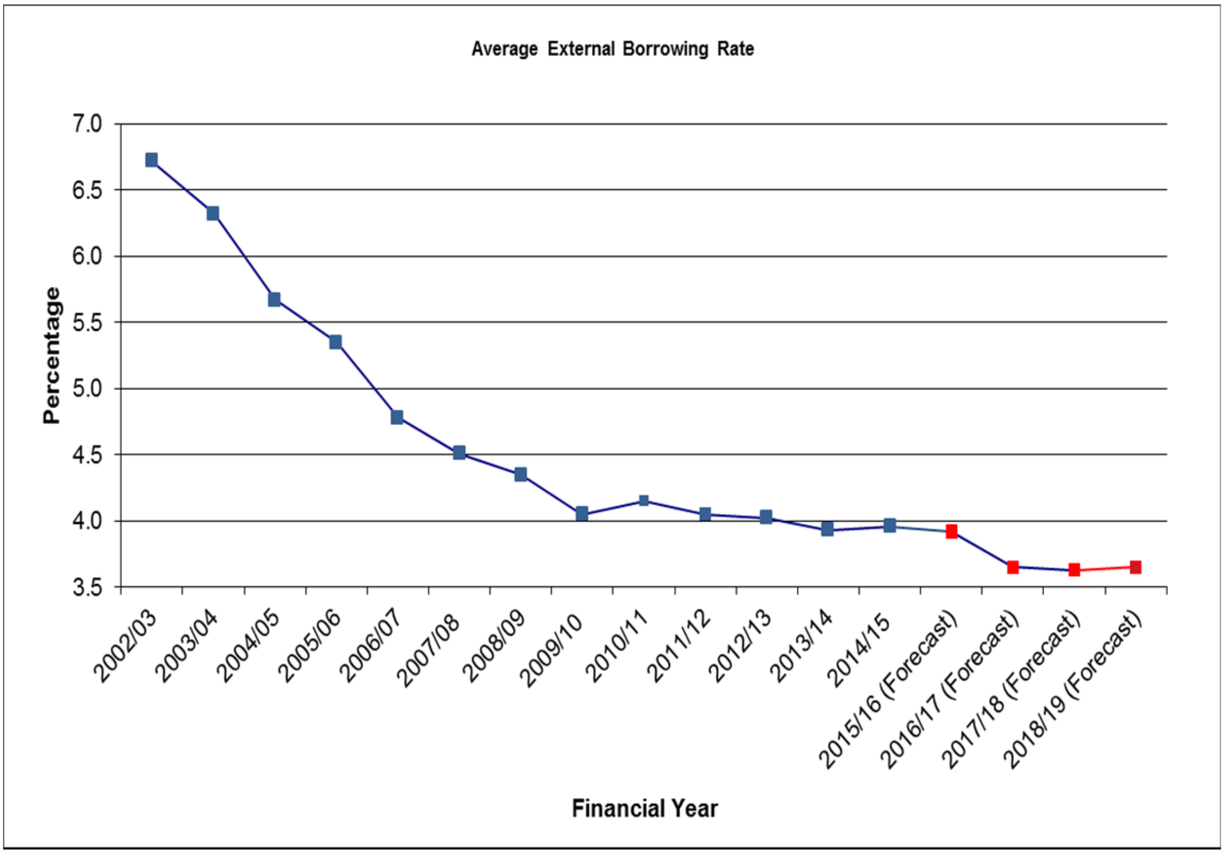


3.1.7 The 2015/16 borrowing strategy continues to fund the capital programme borrowing requirement from short dated loans and internal cash balances whilst looking for opportunities to lock into attractive longer dated funding. The debt budget outturn is projected to be in line with the budget set in February 2015. The ability to take longer term funding is discussed in the strategy for 2016/17 however no new longer term funding has at the time of writing been taken during 2015/16.

3.2 Interest Rate Review

3.2.1 The average rate of interest paid on the Council's external debt for 2014/15 was 3.96% as reported in the Annual Treasury Management Report 2014/15 to Executive Board on 16th July 2015. This rate is forecast to fall slightly to 3.92% for 2015/16. Chart 2 shows how the average, external borrowing rate has fallen from 6.72% in 2002/03. The expectation is that the Councils average cost of borrowing will begin to rise as the cost of borrowing increases and short term funding is switched to more expensive longer term funding rates. The average rate may fall further if the rates currently available continue.

Chart 2



3.2.2 The projections for the first increase in the bank rate has moved from December 2015, as forecast in last year's strategy report to Q4 2016 as shown in Table 3 as economic headwinds strengthen and growth moderates. Forecast rates beyond one year have reduced significantly over the last few months as oil prices and inflation have reduced.

Table 3

	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)			
		5 year	10 Year	25 year	50 year
Now	0.50	1.92	2.58	3.36	3.18
March 2016	0.50	2.00	2.60	3.40	3.20
June 2016	0.50	2.10	2.70	3.40	3.20
Sept 2016	0.50	2.20	2.80	3.50	3.30
Dec 2016	0.75	2.30	2.90	3.60	3.40
March 2017	0.75	2.40	3.00	3.70	3.50
June 2017	1.00	2.50	3.10	3.70	3.60
Sept 2017	1.00	2.60	3.20	3.80	3.70
Dec 2017	1.25	2.70	3.30	3.90	3.80
March 2018	1.25	2.80	3.40	4.00	3.90
June 2018	1.50	2.90	3.50	4.00	3.90
Sept 2018	1.50	3.00	3.60	4.10	4.00
Dec 2018	1.75	3.10	3.60	4.10	4.00
March 2019	1.75	3.20	3.70	4.10	4.00

Source Council's Treasury Advisors

3.2.3 The forecast path of longer term rates is clearly dependent upon how the economy performs both here and abroad. If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a sustained US recovery, improvement in world economic activity or increase in inflation risks, then the strategy will be re-appraised with the likely outcome that longer term funding will be acquired. At that point the prospect of a higher debt cost would be viewed against whether:

- The forecast capital borrowing requirement had reduced or slipped into the following years,
- The levels of reserves/ balances were forecast to increase or reduce including whether the council had received up front funding for capital schemes.

3.3 Strategy for 2016/17

3.3.1 Table 4 shows that net borrowing is expected to rise by £79m to £1,605m during the course of 2016/17. The Capital Programme report is presented elsewhere on this agenda.

Table 4

ANALYSIS OF BORROWING 2015/16 – 2018/19		2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Net Borrowing at 1 April		1,406	1,526	1,605	1,666
New Borrowing for the Capital Programme – GF		120	124	99	103
New Borrowing for the Capital Programme - HRA		0	11	23	0
Debt redemption costs charged to Revenue(GF)		(36)	(38)	(43)	(45)
Reduced/(Increased) level of Revenue Balances		36	(18)	(18)	(18)
Net Borrowing at 31 March		1,526	1,605	1,666	1,706
* Comprised as follows					
Long term borrowing	Existing Fixed	1,358	1,254	1,279	1,143
	Existing Variable (Less than 1yr)	0	80	55	150
	New Borrowing	120	79	61	40
Short term Borrowing		60	202	281	383
Total External Borrowing		1,538	1,615	1,676	1,716
Less Investments		12	10	10	10
Net External Borrowing		1,526	1,605	1,666	1,706
% gross borrowing exposed to interest rate risk		12%	22%	24%	33%

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

3.3.2 Table 4 above shows that over the 4 year time horizon the proportion of the Council's book exposed to interest rate risk is expected to rise to 33%. This level is reached only if no longer term borrowing is taken over this period to cover either new borrowing or refinance maturities. The Prudential Code specifies that the Variable Interest Rate exposure Indicator should be set in relation to net external borrowing position. This limit has been set at 40% and is recommended to be maintained at this level in 3.5.4 below. Included within the net external borrowing are 2 elements that are by definition variable, these are short term loans and LOBO loans with an option which falls within 12 months.

3.3.3 However alongside the prudential code structure the Council's current policy of using its balance sheet strength, reserves, provisions etc. to defray long term borrowing presents an additional risk that needs to be recognised. The Council has a forecast need to borrow, its Capital Financing Requirement (CFR), at 31/03/2016 of £1,892m of which net external funding is expected to be £1,526m, the difference of £366m is the use of internal balance sheet strength to finance this need. The long term funding element of the external debt is forecast to be £1,358m and therefore, accepting that in current conditions LOBO options are unlikely to be exercised, the Councils gross exposure is the difference between its CFR and its current stock of long term external funding or £534m.

3.3.4 This exposure is considered manageable given historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong. These factors will continue to be monitored and should be considered in the context of the stability of the current debt maturity profile. Given that short term rates continue at historical lows the Council will continue to fund the remaining borrowing requirement, if required, at short term rates.

3.3.5 This strategy is prudent as investment returns are low and counterparty risk remains a concern. This strategy is expected to continue into 2016/17 as the outlook for the bank rate remains anchored at or around 0.5% with only one quarter point rise in base rate being factored in during the year.

3.3.6 The 2015/16 budget strategy assumed that subject to market opportunities no longer term borrowing would be acquired. As rates continue to be held at 0.5% and expectations of rate increases have been pushed back, it remains prudent to continue with this strategy in 2016/17, subject to taking advantage of market opportunities.

3.3.7 GDP Growth in the UK has continued albeit at lower levels than 2013 and 2014 with the stated aim of re-balancing the economy towards business investment facing stiff headwinds. CPI inflation has subsided to around 0% whilst wage inflation continues to remain below 3%.

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

- It is 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. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain an ongoing concern.

- Investment returns are likely to remain relatively low during 2016/17 and beyond as rate rises are pushed back and the rate of increase is expected to be slow.

- Borrowing interest rates although higher than recent lows continue to be relatively cheap historically.
- If longer term borrowing is acquired before it is needed the result could be an increase in investments resulting in a revenue loss between borrowing costs and investment returns.

3.3.9 The Council's current long term debt of £1.368bn has an average maturity of nearly 38 years if all its debt runs to maturity. Approximately 30% of the Councils debt has options for repayment, in the unlikely event that all these options were exercised at the next option date then the average maturity would be lowered to a little over 21 years. This compares favourably with the average maturity of the UK Government debt portfolio of nearly 15 years. The existing profile of the Council's debt provides considerable certainty of funding costs. Prudential indicator 16 in Appendix A shows the maturity profile of the Council's long term fixed debt and highlights that 55% or £707m matures in periods greater than 10 years.

3.3.10 The debt budget before MRP is forecast to increase by £1,354k in 2016/17. Forecasts for the debt budget beyond 2016/17 are dependent upon the interest rate assumptions, the likely level of capital spend and the Councils cash balances. The debt budget is currently forecast to increase by a further £5,174k in 2017/18. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2016/17, before establishing the 2017/18 debt budget.

Table 5

	Average Interest Rate
2016/17	0.60%
2017/18	1.00%
2018/19	1.50%

3.3.11 These assumptions on borrowing rates have associated risks. For example in 2016/17, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by circa £650k.

3.4 <u>Borrowing Limits for 2015/16, 2016/17, 2017/18 and 2018/19</u>

3.4.1 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, in order for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be seen as a management tool for on-going monitoring of external debt, and may be breached temporarily due to unusual cash flow movements. Appendix B shows that the Council has kept within the operational boundary and authorised limit in 2015/16.

3.4.2 The Deputy Chief Executive has delegated responsibility to make adjustments between the two separate limits for borrowing and other long term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. It is recommended that Council approve the following authorised limits for its gross external debt and other long term liabilities for the next three years.

3.4.3 After reviewing the forecast debt and borrowing position together with the forecast reduction in revenue balances the Limit for borrowing is recommended to be maintained for 2015/16 at its current level. For 2016/17 and 2017/18 the limit should be increased from £1,800m to £1,900m. For 2018/19, a new limit should be set at £1,950m. The limit for Other Long Term Liabilities is recommended to remain the same for the years 2015/16 to 2017/18 as detailed below. It is further recommended that a new limit be set for the year 2018/19 of £720m to reflect the forecast decline in PFI liabilities.

Recommended: Authorised Limits as follows

Authorised Limit	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Borrowing	1,800	1,900	1,900	1,950
Other Long Term Liabilities	780	760	740	720
Total	**2,580**	**2,660**	**2,640**	**2,670**

3.4.4 In line with the above review of the authorised limits above it is proposed to amend the operational boundaries as detailed below. This limit will retain sufficient headroom to accommodate anticipated cashflow variances. It is recommended to maintain the current boundary for 2015/16 at its current level. For 2016/17 the limit should be increased from £1,650m to £1,750m and for 2017/18 the limit should be increased from £1,750m to £1,800m. For 2018/19, a new limit should be set at £1,850m. The limit for Other Long Term Liabilities is recommended to remain the same for the years 2015/16 to 2017/18 as detailed below. It is further recommended that a new limit be set for the year 2018/19 of £700m to reflect the forecast decline in PFI liabilities.

Recommended: Operational Boundaries as follows

Operational Boundary	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Borrowing	1,600	1,750	1,800	1,850
Other Long Term Liabilities	760	740	720	700
Total	**2,360**	**2,490**	**2,520**	**2,550**

3.4.5 Table 6 below details the borrowing element of the Authorised limit and compares this to the projected CFR for borrowing only and does not include Other Long term liabilities. The revised Authorised limit and the Operational boundary remain below the projected CFR. The CFR is the Councils actual need to borrow based on its historic capital programme and forecast future capital programme. The lower limits reflect the significant level of balances being used internally to fund the borrowing need. The increase in these limits and boundaries are therefore to reflect a prudent safety margin in light of actual and expected changes in both the level of the Councils revenue balances and it on-going capital programme.

Table 6

year	2015//16 £m	2016/17 £m	2017/18 £m	2018/19 £m	
Borrowing only					
CFR Projection.	1,892	1,990	2,069	2,125	
Authorised Limit					
Current	1,800	1,800	1,800	-	
Proposed	1,800	1,900	1,900	1,950	
Increase / (Decrease)	-	100	100	1,950	a
Operational boundary					
Current	1,600	1,650	1,750	-	
Proposed	1,600	1,750	1,800	1,850	
Increase / (Decrease)	-	100	50	1,850	a

a) Note 2018/ 19 has not been set previously as these limits are only set for the current +3 year time horizon

3.5 Treasury Management Indicators

3.5.1 Appendix A highlights the borrowing limits and other prudential indicators

3.5.2 The first prudential indicator in respect of treasury management is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. This was adopted by the Council at the Executive Board meeting on the 13th March 2003.

3.5.3 The Council is required to set an upper limit on its fixed interest rate exposures that represents the maximum proportion of its net borrowing (i.e. measured as a percentage of its total borrowing less investments) which the Council will have at any given time during the period at fixed interest rates. The purpose of the limit is to ensure that the Council has the flexibility to take advantage of falling interest rates by ensuring a minimum level of variable rate debt. However setting a limit less than 100% can restrict the Council's ability to borrow in advance of need when long term fixed interest rates are at their low point. (This is the case since in general amounts borrowed in advance are invested, meaning that the net borrowing figure on which the limit is based will be lower than the total fixed borrowing outstanding.) Therefore to provide the Council with maximum flexibility it is recommended that the limit of 115% remains unchanged and is rolled forward into 2018/19.

Recommended: Upper limit on fixed interest rate exposures for 2015/16, 2016/17, 2017/18 and 2018/19 of 115% (no change)

3.5.4 The Council is required to set an upper limit on its variable interest rate exposures that represents the maximum proportion of debt the Council will have at any given time during the period at variable interest rates and exposed to interest rate rises. In evaluating this figure, LOBOs are treated as being variable in the year in which an option occurs and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rate rises and allowing sufficient flexibility to take advantage of any fall in rates. It is therefore recommended that the limit of 40% of debt remains unchanged and is rolled forward into 2016/17.

Recommended: Upper limit on variable interest rate exposures for 2015/16, 2016/17, 2017/18 and 2018/19 of 40% (no change)

3.5.5 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. It is proposed that these limits remain unchanged.

Maturity structure of fixed rate borrowing	Lower Limit	Upper Limit
under 12 months	0%	15%
12 months and within 24 months	0%	20%
24 months and within 5 years	0%	35%
5 years and within 10 years	0%	40%
10 years and within 20 years 20 years and within 30 years 30 years and within 40 years 40 years and within 50 years 50 years and above	25%	90%

Recommended: Upper and Lower limits on fixed rate maturity structure remains unchanged as above.

3.6 Investment Strategy and Limits

3.6.1 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.

3.6.2 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counter-parties

3.6.3 The investment strategy only allows for the Council to invest in the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

3.6.4 Changes continue to be brought forward in the regulation and stability of the banking system within the UK, and worldwide. These changes are designed to enhance stability within the financial system and to remove the implicit need for government support of such institutions. This would be expected to have a downward effect on the ratings of these institutions by the 3 main credit rating agencies however the additional requirements to hold much larger capital buffers is a significant factor mitigating this expected effect. These changes are being monitored closely as is the effect on the credit list supplied by the Councils Treasury Advisors. Other factors are also used in determining potential counterparties for the investment of funds over and above credit ratings

3.6.5 The Council under its existing Treasury Management Policy Statement has the authorisation to use Money Market Funds which it has not utilised to date. The rates offered on Call accounts by both the Councils bankers and by other banks offering similar products continues to be at low levels. This is thought to reflect the cost of carrying such cash on the balance sheet of these organisations under Basel III rules. As a result the levels on offer are at or below rates available from Money Market Funds which carry a higher credit worthiness rating. A review of the utility of these funds is being undertaken for depositing short term cash balances and any decision to utilise these accounts will be made under delegations already in place to the Deputy Chief Executive.

3.6.6 The Prudential code requires that Councils set limits on investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below and roll the limit forward into 2018/9.

Recommended: Upper limit on sums invested for periods longer than 364 days (no change):

Total principal sum invested for a period longer than 364 days	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Upper limit	150	150	150	150

3.7 Treasury Management Policy Statement

3.7.1 The treasury management policy statement has been updated to changes made to the Councils updated officer delegation scheme. These are reflected in greater detail at Appendix B.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report sets the treasury management strategy and as such there is no need to consult the public. In establishing this strategy, consultation with the Council's treasury advisors has taken place.

4.1.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme report elsewhere on this agenda.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality diversity cohesion and integration issues. An equality screening document is attached at Appendix C.

4.1 Council policies and Best Council Plan

4.1.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan.

4.2 Resources and Value for Money

4.2.1 This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

4.2.2 The updated strategy 2015/16 is forecast to be in line with the budget.

4.3 Legal Implications, Access to Information and Call In

4.3.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury Management Policy Statement are approved by Council. As such, recommendations 6.2 to 6.5 are not subject to call in.

4.4 Risk Management

4.4.1 This report sets out the framework for the treasury strategy for the year ahead. The execution of strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group
- Quarterly strategy meetings with the Deputy Chief Executive and the Council's treasury advisors
- Regular market, economic and financial instrument updates and access to real time market information

5 Conclusions

5.1 The Council's level of external debt at 31st March 2016 is anticipated to be £1,526m, £51m higher than expected in November 2015, rising to £1,605m in 2016/17 and to £1,666m by 2017/18.

5.2 The interest cost of debt is budgeted to increase by £1,354k in 2016/17 before MRP.

5.3 The uncertainty and risks around economic forecasts will result in further caution being adopted in the management of debt and investments and the opportunity to secure longer term debt at the appropriate time will be kept under review.

5.4 The Treasury Management Policy Statement has been updated to reflect internal changes to the governance arrangements and officer delegations.

6 **Recommendations**

That the Executive Board:

6.1 Approve the initial treasury strategy for 2016/17 as set out in Section 3.3 and note the review of the 2015/16 strategy and operations set out in Sections 3.1 and 3.2.

That Executive Board recommend to full Council that:

6.2 The borrowing limits for 2015/16, 2016/17, 2017/18 and 2018/19 be set as detailed in Section 3.4 and note the changes to both the Operational Boundary and the Authorised limits.

6.3 The treasury management indicators for 2015/16, 2016/17, 2017/18 and 2018/19 be set as detailed in Section 3.5.

6.4 The investment limits for 2015/16, 2016/17, 2017/18 and 2018/19 be set as detailed in Section 3.6.

6.5 The revised Treasury Management Policy Statement is adopted.

7 Background documents [1]

None

[1] The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix A

Leeds City Council - Prudential Indicators 2015/16- 2018/19

No.	PRUDENTIAL INDICATOR	2015/16	2016/17	2017/18	2018/19
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
	Ratio of Financing Costs to Net Revenue Stream				
1	General Fund - Excluding DSG **(Note1)**	12.03%	14.10%	15.97%	17.44%
2	HRA	11.85%	10.49%	11.30%	11.56%
	Estimates of the Incremental Impact of new capital investment decisions	£ . P	£ . P	£ . P	£ . P
3	increase in council tax B7(band D, per annum) **(Note 2)**	12.64	49.82	87.84	119.60
4	increase in housing rent per week	0.00	0.09	0.46	0.84
		£'000	**£'000**	**£'000**	**£'000**
5	**Net external borrowing requirement (Net Debt and CFR)**	1,526,000	1,605,000	1,666,000	1,706,000
	The Net Borrowing Requirement should not exceed the capital financing requirement **(Note 3)**	OK	OK	OK	OK
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**	**£'000**
6	General Fund	386,368	229,785	179,503	156,061
7	HRA	157,076	143,715	121,126	86,065
	TOTAL	543,444	373,500	300,629	242,126
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**	**£'000**
8	General Fund	1,784,510	1,853,042	1,891,606	1,932,593
9	HRA	818,761	833,222	849,492	843,609
	TOTAL	2,603,271	2,686,264	2,741,098	2,776,202
9a	**Limit of HRA Indebtedness as implemented under self financing**	725,327	725,327	725,327	725,327

No.	PRUDENTIAL INDICATOR	2015/16	2016/17	2017/18	2018/19
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 5)**				
	borrowing	1,800,000	1,900,000	1,900,000	1,950,000
	other long term liabilities	780,000	760,000	740,000	720,000
	TOTAL	2,580,000	2,660,000	2,640,000	2,670,000
11	**Operational boundary - (Note 5)**				
	borrowing	1,600,000	1,750,000	1,800,000	1,850,000
	other long term liabilities	760,000	740,000	720,000	700,000
	TOTAL	2,360,000	2,490,000	2,520,000	2,550,000
14	**Upper limit for fixed interest rate exposure**				
	expressed as either:-				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
	Net interest re fixed rate borrowing / investments				
15	**Upper limit for variable rate exposure**				
	expressed as either:-				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
	Net interest re variable rate borrowing / investments				
		£'000	**£'000**	**£'000**	**£'000**
17	**Upper limit for total principal sums invested for over 364 days (Note 5)**	150,000	150,000	150,000	150,000
	(per maturity date)				
18	**Net Debt as a percentage of Gross debt**	99.22%	99.38%	99.40%	99.42%

16	**Maturity structure of fixed rate borrowing 2015/16**	Lower Limit	Upper Limit	Projected 31/03/2016	
	under 12 months	0%	15%	2%	
	12 months and within 24 months	0%	20%	4%	
	24 months and within 5 years	0%	35%	28%	
	5 years and within 10 years	0%	40%	11%	
	10 years and within 20 years	25%	90%	3%	55%
	20 years and within 30 years			0%	
	30 years and within 40 years			29%	
	40 years and within 50 years			23%	
				100%	

Notes.

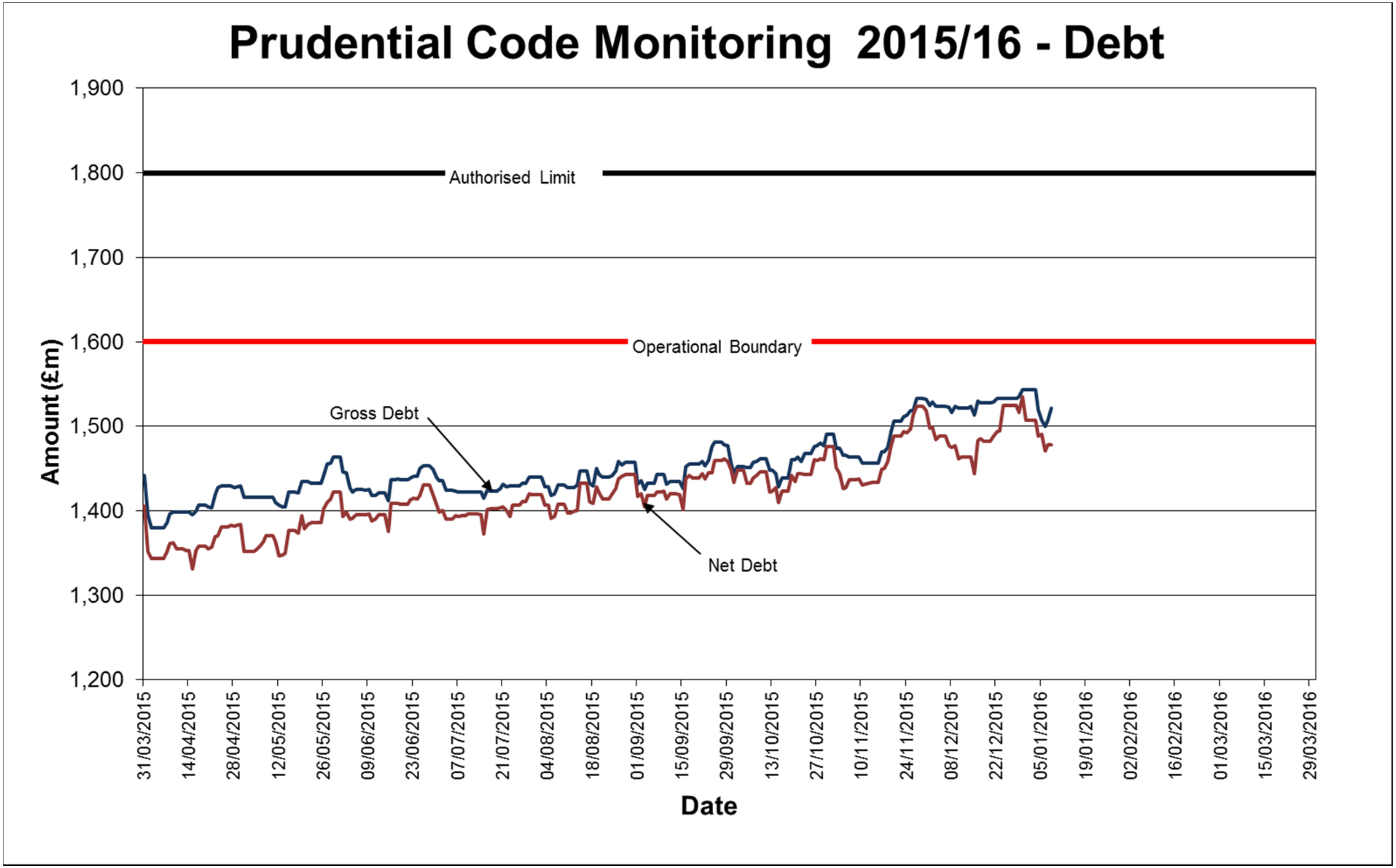
1 **The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.**

2 **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.**

3 **In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.**

4 **Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.**

5 **Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, and the revised code in February 2010 and 2012**


Prudential Code Monitoring 2015/16 - Debt
Amount (£m)
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
31/03/2015
14/04/2015
28/04/2015
12/05/2015
26/05/2015
09/06/2015
23/06/2015
07/07/2015
21/07/2015
04/08/2015
18/08/2015
01/09/2015
15/09/2015
29/09/2015
13/10/2015
27/10/2015
10/11/2015
24/11/2015
08/12/2015
22/12/2015
05/01/2016
19/01/2016
02/02/2016
16/02/2016
01/03/2016
15/03/2016
29/03/2016
Date

Appendix C

Equality, Diversity, Cohesion and Integration Screening

Leeds CITY COUNCIL

As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration.

A **screening** process can help judge relevance and provides a record of both the **process** and **decision.** Screening should be a short, sharp exercise that determines relevance for all new and revised strategies, policies, services and functions. Completed at the earliest opportunity it will help to determine:

- the relevance of proposals and decisions to equality, diversity, cohesion and integration.
- whether or not equality, diversity, cohesion and integration is being/has already been considered, and
- whether or not it is necessary to carry out an impact assessment.

Directorate: Resources	**Service area: Audit and Investment**
Lead person: Bhupinder Chana	**Contact number: 51332**

1. Title: Treasury Management Strategy 2016/17
Is this a: [X] **Strategy / Policy** [ ] **Service / Function** [ ] **Other** **If other, please specify**

2. Please provide a brief description of what you are screening
The report sets out the treasury management strategy for 2016/17. The strategy outlines the approach to managing the Council's borrowing requirements in the light of its capital programme, cash balances and reserves and economic conditions including forecasts of interest rates.

3. Relevance to equality, diversity, cohesion and integration

All the council's strategies/policies, services/functions affect service users, employees or the wider community – city wide or more local. These will also have a greater/lesser relevance to equality, diversity, cohesion and integration.

The following questions will help you to identify how relevant your proposals are.

When considering these questions think about age, carers, disability, gender reassignment, race, religion or belief, sex, sexual orientation. Also those areas that impact on or relate to equality: tackling poverty and improving health and well-being.

Questions	Yes	No
Is there an existing or likely differential impact for the different equality characteristics?		X
Have there been or likely to be any public concerns about the policy or proposal?		X
Could the proposal affect how our services, commissioning or procurement activities are organised, provided, located and by whom?		X
Could the proposal affect our workforce or employment practices?		X
Does the proposal involve or will it have an impact on • Eliminating unlawful discrimination, victimisation and harassment • Advancing equality of opportunity • Fostering good relations		 X X X

If you have answered **no** to the questions above please complete **sections 6 and 7**

If you have answered **yes** to any of the above and;

- Believe you have already considered the impact on equality, diversity, cohesion and integration within your proposal please go to **section 4.**
- Are not already considering the impact on equality, diversity, cohesion and integration within your proposal please go to **section 5.**

4. Considering the impact on equality, diversity, cohesion and integration

If you can demonstrate you have considered how your proposals impact on equality, diversity, cohesion and integration you have carried out an impact assessment.

Please provide specific details for all three areas below (use the prompts for guidance).

- **How have you considered equality, diversity, cohesion and integration?**

(**think about** the scope of the proposal, who is likely to be affected, equality related information, gaps in information and plans to address, consultation and engagement activities (taken place or planned) with those likely to be affected)

• **Key findings** **(think about** any potential positive and negative impact on different equality characteristics, potential to promote strong and positive relationships between groups, potential to bring groups/communities into increased contact with each other, perception that the proposal could benefit one group at the expense of another)
• **Actions** **(think about** how you will promote positive impact and remove/ reduce negative impact)

5. If you are **not** already considering the impact on equality, diversity, cohesion and integration you **will need to carry out an impact assessment**.	
Date to scope and plan your impact assessment:	
Date to complete your impact assessment	
Lead person for your impact assessment (Include name and job title)	

6. Governance, ownership and approval Please state here who has approved the actions and outcomes of the screening		
Name	**Job title**	**Date**
Bhupinder Chana	Principal Financial Manager Capital & Treasury Management	25th January 2016
Date screening completed		25th January 2016

7. Publishing
Though **all** key decisions are required to give due regard to equality the council **only** publishes those related to **Executive Board**, **Full Council, Key Delegated Decisions** or a **Significant Operational Decision.** A copy of this equality screening should be attached as an appendix to the decision making report:

- Governance Services will publish those relating to Executive Board and Full Council.
- The appropriate directorate will publish those relating to Delegated Decisions and Significant Operational Decisions.
- A copy of all other equality screenings that are not to be published should be sent to equalityteam@leeds.gov.uk for record.

Complete the appropriate section below with the date the report and attached screening was sent:

For Executive Board or Full Council – sent to **Governance Services**	Date sent: 25th January 2016
For Delegated Decisions or Significant Operational Decisions – sent to appropriate **Directorate**	Date sent:
All other decisions – sent to equalityteam@leeds.gov.uk	Date sent:

Appendix D

Treasury Management Policy Statement

1 Introduction

1.1 The following document sets out the Treasury Management Policy Statement (TMPS) for the Authority, which fully complies with the requirements of the CIPFA Prudential Code and ode of Practice.

2.0 Background

2.1 CIPFA first published its Code of Practice on Treasury Management in May 1992. There have been subsequent revisions over the years culminating in the latest version of the code, the fully revised Third Edition 2011, which recommends that all public service organisations adopt, as part of their standing orders and financial procedures, the following four clauses.

a) This Authority adopts the key recommendations of CIPFA's *Treasury Management in the Public Services: Code of Practice* (the Code), as described in Section 4 of that Code.

b) Accordingly, this Authority will create and maintain, as the cornerstones of effective treasury management:

- A TMPS (Treasury Management Policy Statement), stating the policies and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMP's), 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. A full set of TMP's are maintained on the Treasury Section

c) The Executive Board 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 half year update and an annual report after its close, in the form prescribed in its TMP's.

d) This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Board, and for the execution and administration of treasury management decisions to the Deputy Chief Executive, who will act in accordance with the organisation's TMPS and Treasury Management Practices and, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management.*

e) This organisation nominates the Corporate Governance and Audit committee to be responsible for ensuring the effective scrutiny of the treasury management strategy and Policies

2.2 CIPFA recommends that an organisation's TMPS adopts the following forms of words to define the policies and objectives of its treasury management activities:

- This organisation defines its treasury management activities as: "The management of the organisation's 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."
- 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.

- 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 best value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.3 These key recommendations and form of words as specified above were adopted by the Executive Board on the 12th March 2003.

2.4 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.

2.5 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators. Any in year revision of these limits must similarly be set by Council.

3.0 Objectives of Treasury Management

3.1 The primary objective is to reduce the cost of debt management with which the other objectives are deemed to be consistent. Varying degrees of emphasis will be placed upon the "secondary objectives" at different times contingent upon prevailing market conditions.

3.2 The objectives are identified as follows:

a) To reduce the cost of debt management;

b) To ensure that the management of the HRA and general fund is treated equally and new accounting principles are examined to provide benefits where possible;

c) To effect funding at the lowest point of the interest rate cycle;

d) To maintain a flexible approach regarding any financial matters that may affect the Authority;

e) To keep under constant review advice on investment/repayment of debt policy;

f) To maintain a prudent level of volatility dependent upon interest rates;

g) To set upper and lower limits for the maturity structure of its borrowings and to maintain a reasonable debt maturity profile;

h) To specifically ensure that Leeds City Council does not breach Prudential Limits passed by the Council;

i) To ensure that the TMPS is fully adhered to in every aspect.

4.0 Approved Activities of the Treasury Management Operation

4.1 The approved activities of the Treasury Management operation cover:

a. borrowing;

b. lending;

c. debt repayment and rescheduling;

d. financial instruments new to the authority (including financial derivatives);
e. risk exposure; and
f. cash flow.

4.2 It is the Council's responsibility to approve the TMPS. The Executive Board will receive and consider as a minimum:

a) an annual treasury management strategy before the commencement of the new financial year (which sets out the likely operations for the forthcoming year);

b) a mid-year update on treasury strategy;

c) an annual report on the treasury management activity after the end of the year to which it relates.

4.3 The Deputy Chief Executive will:

a) implement and monitor the TMPS, revising and resubmitting it for consideration to the Executive Board and the Council, periodically if changes are required;

b) draft and submit a Treasury Management Strategy to the Executive Board, in advance of each financial year;

c) draft and submit an update report on treasury management activity to the Executive Board

d) draft and submit an annual report on treasury management activity to the Executive Board; and

e) implement and monitor the Strategy, reporting to the Executive Board any material divergence or necessary revisions as and when required;

5.0 Formulation of Treasury Management Strategy

5.1 Whilst this TMPS outlines the procedures and considerations for the treasury function as a whole, requiring revision occasionally, the Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Executive Board for approval before the commencement of each financial year.

5.2 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates (for instance, the Council may postpone borrowing if fixed interest rates are falling).

5.3 The Treasury Management Strategy is also concerned with the following elements:

a) the prospects for interest rates;

b) the limits placed by Council on treasury activities (per this TMPS);

c) the expected borrowing strategy;

d) the temporary investment strategy;

e) the expectations for debt rescheduling.

5.4 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using published forecasts where applicable), and highlight sensitivities to different scenarios.

6.0 Approved Methods and Sources of Raising Capital Finance

6.1 Under the Local Government Act 2003 a local authority may borrow money for:

a) for any purpose relevant to its functions under any enactment, or
b) for the purposes of the prudent management of its financial affairs.

A local authority may not, without the consent of the Treasury, borrow otherwise than in sterling.

6.2 Local authorities have in the past only been able to raise finance in accordance with the Local Government and Housing Act 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

		Fixed	Variable
	Public Works Loans Board (PWLB)	•	•
	European Investment Bank (EIB)	•	•
*	Stock Issues	•	•
	Market Long-Term	•	•
	Market Temporary	•	•
	Local Temporary	•	•
*	Local Bonds	•	
	Overdraft		•
*	Negotiable Bonds	•	•
	Internal (capital receipts & revenue balances)	•	•
*	Commercial Paper	•	
*	Medium Term Notes	•	
	Finance Leases	•	•

* (Not used at present by this Council)

6.3 The revised treasury management code of practice (2011), through the Localism Act 2011, gave local authorities the power to use derivatives for interest rate risk Management. These instruments will only be used after a review of their appropriateness for interest rate risk management is undertaken.

7.0 Approved Instruments and Organisations for Investments

7.1 With effect from the 1st April 2004, to coincide with the introduction of the prudential code, new legislation has been issued to deal with the issue of Local Government Investments. This legislation lifts the restrictions on Councils with external debt to not hold investments for more than 364 days. Further freedoms are also provided which will give Councils greater flexibility and hence access to higher returns, provided that any investment strategy is consistent with the new prudential framework.

7.2 The Council will have regard to the CLG Guidance on Local Government Investments (second Edition) issued in March 2010 and CIPFAs Treasury Management in Public

Services Code of Practice and Cross Sectoral Guide. The Council's investment priorities are:

a) The security of capital

b) The liquidity of investments

c) and finally, the yield of the investment

7.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Council does not have the authority to undertake borrowing purely to invest or lend and make a return as this is unlawful and will not engage in such activity.

7.4 The Deputy Chief Executive will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type and specific counterparty limits. This criterion is outlined below. Should any revisions occur to the criteria, they will be submitted to the Executive Board for approval. Where individual counterparties newly obtain the required criteria, they will be added to the list. Similarly, those ceasing to meet the criteria will be immediately deleted. The criteria uses ratings from the three rating agencies and those relating to Fitch are explained in Annexe A.

7.5 The Council's approved Treasury Policy is to use the recommended lending list provided by the Council's treasury advisers. This list is compiled on a matrix approach using data from recognised international credit rating agencies as well as information on individual counterparties drawn from Credit Default Swap (CDS) levels, which provide ratings of institutions across four categories. The rankings of institutions regarded as excellent is split into five colours (red, orange, blue, purple and yellow) to reflect the length of time over six months that amounts can be placed with them and to reflect the explicit support level given to UK part nationalised banks (Blue), and the special category for investment in UK gilts, supranational's and collateralised deposits (Yellow). Regular updates are made to this list, as institutions' credit ratings change. The use of the list was introduced and reported to Executive Board in the Treasury Strategy and Policy report of February 2002.

The following investment limits are applied by the Council's Treasury policy:

Advisor Ranking	**Meaning**	**Limit on Amount Lent**	**Current Limits on Duration**
General Bank			
Green	Good	£5m	3 Months
Red	Excellent	£15m	6 Months
Orange	Excellent	£15m	1 Year
Purple	Excellent	£15m	2 Years
Other			
Blue	Excellent	£15m	1 Year
Yellow	Excellent	£15m	5 Years

The CDS subjective overlay is then applied to the General banks and further reduces the suggested limits of duration as shown in the following table:

Initial Duration (Months)		Suggested Duration (watch/ outlook)		CDS Status		Suggested Adjusted Colour		Adjusted Duration (Months)
0	→	N/C	+	In Range	=	N/C	→	0
0	→	N/C	+	Monitoring	=	N/C	→	0
0	→	N/C	+	Out of Range	=	N/C	→	0
3	→	G	+	In Range	=	G	→	3
3	→	G	+	Monitoring	=	N/C	→	0
3	→	G	+	Out of Range	=	N/C	→	0
6	→	R	+	In Range	=	R	→	6
6	→	R	+	Monitoring	=	G	→	3
6	→	R	+	Out of Range	=	N/C	→	0
12	→	O	+	In Range	=	O	→	12
12	→	O	+	Monitoring	=	R	→	6
12	→	O	+	Out of Range	=	N/C	→	0
24	→	P	+	In Range	=	P	→	24
24	→	P	+	Monitoring	=	O	→	12
24	→	P	+	Out of Range	=	N/C	→	0

7.6 The Council will lend up to £15 million to an institution ranked as 'excellent' and up to £5 million for up to 3 months to an institution ranked as 'good'. A number of these institutions exist within the same group of companies as parents or subsidiaries. A limit to the risk exposure of the Council for groups of banks borrowing limit has also been set of £30m. These limits do not apply to the Councils' banker where we have an unlimited deposit facility as part of our banking arrangements. The Council's banking arrangements are the subject of a separate contract, and as such volumes and levels of transactions are not subject to the counterparty ratings and limits that are in place on external investments. Other local authorities are classified with an excellent rating and as such attract a £15m investment limit for a maximum of 5 years (Yellow classification).

7.7 Within the investment limits outlined above the Council has access to a number of investment instruments. These are listed below as specified and non-specified investment categories. Specified investments are defined as "minimal procedural formalities" under the March 2004 ODPM guidance revised 2010 under DCLG.

a) Specified Investments

(All such investments will be sterling denominated, with **maturities of any period meeting** the minimum 'high' rating criteria where applicable)

Fixed Term Deposits with fixed rates	Use
Debt Management Agency Deposit Facility	In-house
Term deposits – local authorities	In-house
Term deposits – banks and building societies	In-house and fund managers

In the following table the determination as to whether the following are specified or non-specified is at the discretion of the Authority depending on the element of the return that is fixed, **provided that the maturity of the investment falls within 1 year.**

Fixed term deposits with variable rate and variable maturities: -	
1. Callable deposits	In-house and fund managers
2. Range trade	In-house and fund managers
3. Snowballs	In-house and fund managers
Certificates of deposits issued by banks and building societies	In-house buy and hold and fund managers
UK Government Gilts	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK government)	In house on a 'buy and hold basis' and Fund Managers
Treasury Bills	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):	
1. Money Market Funds	In-house and fund managers
2. Enhanced cash funds	In-house and fund managers
3. Short term funds	In-house and fund managers
4. Bond Funds	In-house and Fund Managers
5. Gilt Funds	In-house and Fund Managers

Note: If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

b) Non-Specified Investments:

Non-specified investments are those where the return is uncertain.

Maturities of ANY period.

	Use
Corporate Bonds : *the use of these investments would constitute capital expenditure*	In house on a 'buy and hold basis' and Fund Managers
Floating Rate Notes : *the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank*	Fund managers

All the investments in the following table are non-specified as returns could be uncertain and the maturity of the investment is greater than 1 year.

Fixed term deposits with variable rate and variable maturities	
1. Callable deposits	In-house and fund managers
2. Range trade	In-house and fund managers
3. Snowballs	In-house and fund managers
Certificates of deposits issued by banks and building societies	In house on a 'buy and hold basis' and Fund managers
UK Government Gilts	In house on a 'buy and hold basis' and Fund Managers
Bonds issued by multilateral development banks	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	In house on a 'buy and hold basis' and Fund Managers
Collateralised deposits	In house and fund managers
Property fund: *the use of these investments would constitute capital expenditure*	Fund manager
1. Bond Funds	In-house and Fund Managers
2. Gilt Funds	In-house and Fund Managers
Collective Investment Schemes structured as Open Ended Investment Schemes	
Bond Funds	In-house and Fund Managers
Gilt Funds	In-house and Fund Managers

7.8 The Deputy Chief Executive will continue to monitor the range of investment instruments available and make changes to the list as appropriate.

8.0 Investments on Behalf of Council Managed Charities and Trusts

8.1 The Council currently invests surplus balances on behalf of trust funds and Charities in the name of the Council and investments are within the overall counterparty limits identified in 7.6 above.

8.2 To provide the Council and Charities/Trusts with a greater degree of flexibility the Council will have the option to invest monies on behalf of charities and trusts over and above the Council's own investment limits. This additional investment will be subject to individual Charity/Trust fund Board approval.

8.3 The Council only invests in those counterparties that are on the approved list as per the investment criteria outline in 7.5 above. Investments made on behalf of Charities/Trust funds are subject to the same criteria unless there is specific Charity/Trust fund approval in place to invest in other counterparties.

9.0 Policy on Interest Rate Exposure

9.1 As required by the Prudential Code, the Council must approve before the beginning of each financial year the following treasury limits:

a) the overall borrowing limit;

b) the amount of the overall borrowing limit which may be outstanding by way of short term borrowing;

c) the maximum proportion of interest on borrowing which is subject to variable rate interest.

9.2 The Deputy Chief Executive is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Deputy Chief Executive shall submit the changes for approval to the Executive Board before submission to the full Council for approval.

10.0 Policy on External Managers

10.1 The Council has taken the view that the appointment of external fund managers would not provide an enhanced return over what could be achieved by managing investment in house.

10.2 However, the fact that a fund manager’s expertise allows for a wider investment portfolio than would be operated by Council officers may give opportunities for capital gains to supplement interest earned on investment of revenue balances.

10.3 It is felt appropriate therefore that the Policy allows for the use of external fund managers and although none are being used at present, this situation will be kept under review. Appointment of a fund manager would take place following a tender exercise and submissions on target performance.

11.0 Policy on Delegation and Review Requirements and Reporting Arrangements

11.1 The Council is responsible for determining the borrowing limits detailed in section 8 above. Other responsibilities and duties are delegated as follows.

11.2 The Executive Board has responsibility for determining and reviewing treasury strategy and performance. (See section 5 above).

11.3 The Deputy Chief Executive and through him/her to his/her staff has delegated powers for all borrowing and lending decisions. This delegation is required in order that the authority can react immediately to market interest rate movements and therefore achieve the best possible terms. The Deputy Chief Executive and staff will operate in accordance with the Code of Practice for Treasury Management in Local Authorities.

11.4 The treasury management governance framework and the delegations within the Strategy and Resources Directorate shall operate on the following basis and is summarised in Annexe B:

a) The practical organisation within the Strategy and Resources Directorate is that all aspects of borrowing/lending strategy over the year are determined or reported to regular monthly meetings of the Finance Performance Group attended by the Chief Officer (Audit and Investments), Chief Officer (Financial Services) and Heads of Finance. Quarterly, treasury strategy review meetings take place with the Deputy Chief Executive, Chief Officer (Audit and Investments), Chief Officer (Financial Services), Head of Finance - Capital, Insurance and Treasury Management and the Senior Treasury Manager.

b) Implementation of decisions at such meetings and the day to day management of the Treasury Operations are delegated without limit to the Chief Officer (Financial Services) or in his/her absence and through him her to either the Chief Officer (Audit and Investments), the Head of Finance - Capital, Insurance and Treasury Management or the Senior Treasury Manager and on occasions the Assistant Finance Manager.

c) Consultations will be made by the Deputy Chief Executive on Treasury Management matters with:

- <u>The Chief Executive</u>: so that he/she can ensure proper Treasury systems are in place and are properly resourced.

- <u>External Treasury Advisers</u>: so that they can advise and monitor the process of fixing strategy and policy on treasury matters and advise on the economic outlook, prospects for interest rates and credit worthiness

Annexe A

FITCH CREDIT RATING DEFINITIONS

Source: Fitch Ratings

International Short-Term Credit Ratings

A short-term rating has a time horizon of less than 12 months for most obligations, or up to three years for US public finance securities, and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

FI *Highest credit quality*. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2 *Good credit quality*. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3 *Fair credit quality*. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

B *Speculative*. Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.

C *High default risk*. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.

D *Default.* Denotes actual or imminent payment default. “+” or “-“may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA’ long-term rating category, to categories below 'CCC', or to short-term ratings other than 'FI'.

International Long-Term Credit Ratings Investment Grade

AAA *Highest credit quality*. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA *Very high credit quality*. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A *High credit quality*. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB *Good credit quality*. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

Speculative Grade

BB *Speculative*. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B *Highly speculative*. 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.

CCC, CC *High default risk*. Default is a real possibility. Capacity for meeting and C financial commitments is solely reliant upon sustained, favourable business or economic developments. A 'CC' rating indicates that default of some kind appears probable. 'C' ratings signal imminent default.

DDD, DD *Default*. The ratings of obligations in this category are based on and D their prospects for achieving partial or full recovery in a reorganisation or liquidation of the obligor. 'DDD' designates the highest potential for recovery of amounts outstanding on any securities involved. 'DD' indicates expected recovery of 50% - 90% of such out standings, and 'D' the lowest recovery potential, i.e. below 50%.

Individual Ratings
Fitch’s Individual Ratings attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank’s exposure to, appetite for, and management of risk and thus represents Fitch’s view on the likelihood that it would run into significant difficulties such that it would require support.

A A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment, or prospects.

B A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

C An adequate bank which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

D A bank which has weaknesses of internal and/or external origin. There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects .

E A bank with very serious problems which either requires or is likely to require external support.
Note: In addition, FITCH uses gradations among these five ratings, i.e AIB, BIC, CID, and DIE.

Support Ratings
Support/Legal Ratings do not assess the quality of a bank. Rather, they are Fitch’s assessment of whether it would receive support in the event of difficulties. Fitch emphasises that these ratings constitute their opinions alone - although they may discuss the principles underlying them with the supervisory authorities, the ratings given to banks are Fitch’s own and are not submitted to the authorities for their comment or endorsement.

1 A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.

2 A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

3 A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.

4 A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.

5 A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

It must be emphasised that in the Support rating Fitch is not analysing how "good" or "bad" a bank is, but merely whether in Fitch’s opinion it would receive support if it ran into difficulties.

Annex B

Treasury Management Governance Framework

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		

↓DELEGATIONS TO OFFICERS

DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED
Officer delegation scheme (Executive Functions)	Deputy Chief Executive	Making arrangements for the proper administration of the authority's financial affairs
Directors delegation under Articles, Specific delegations of the Deputy Chief Executive 12.4 Page 10	Discharged through Chief Officer Financial Services	Making arrangements for the proper administration of the authority's financial affairs (includes S151 responsibilities as his deputy)
Executive Functions Specific Delegations Page 24 (d) Treasury Management	To Chief Officer Financial Services	The provision of financial services, including treasury management (encompassing the making of payments and borrowing of loans)
Miscellaneous Functions - Financial Regulation 20: Treasury Management Page 32	Function delegated to Chief Officer (Financial Services) with the power to sub delegate to the Chief Officer (Audit and Investments)	To ensure that all investment and borrowing is valid, accurate, efficient, properly accounted for and in accordance with statutory and corporate requirements

↓OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK		
POLICY DOCUMENT	**TO WHOM**	**OPERATIONAL AUTHORITY**
Treasury Management Policy Statement (section 11) Policy on Delegation and Review Requirements and Reporting Arrangements	Chief Off. Financial Services Chief Off. Audit & Investment Head of Finance - Capital, Insurance and Treasury Management Senior Treasury Manager Assistant Finance Manager	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code Guidance Notes	Head of Finance - Capital, Insurance and Treasury Management Senior Treasury Manager Assistant Finance Manager	Ensure compliance and that any changes are reflected in the operating framework.