**TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14 - 2015/16 incorporating ANNUAL INVESTMENT STRATEGY 2013/14 &
MINIMUM REVENUE PROVISION STATEMENT 2013/14**

EXECUTIVE MEMBER: Cllr Gillian Troughton
LEAD OFFICER: Darienne Law, Head of Corporate Resources
REPORT AUTHORS: Leanne Barwise, Senior Accounting Officer

This report was initially presented to Executive on 9th January 2013 for information before being scrutinised at Audit and Governance Committee on 31st January 2013. It will be considered today for recommendation to Council for approval on 21st February 2013.

The Audit and Governance Committee on 31st January were satisfied with the approach to Treasury Management set out in the strategy and the Annual Investment Strategy and content with the Minimum Revenue Provision Statement.

Any amendments to this report as a result of this meeting and subsequently subject to any adjustments to the figures within the Revenue Budget report or the Capital Programme Report (which are included within this report and will be presented at this same meeting) will be incorporated into the Full Council report presented on the 21st February 2013.

RECOMMENDATION:

Executive recommend to Council for approval on 21st February 2013 the Treasury Management Strategy Statement 2013/14 – 2015/16, the Annual Investment Strategy 2013/14 and the Minimum Revenue Provision Statement 2013/14 contained within this report.

1. Introduction

1.1 Background

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

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

Treasury Management Policy Statement

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. "

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.

Copeland Borough Council acknowledges that that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to achieving value for money in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.

The Section 151 Officer ensures that the treasury management function is operated within the criteria set out in this report. The day to day operation of the treasury management function is delegated to the Senior Accounting Officer, Financial Management & Capital/Treasury or another suitably trained officer in their absence.

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, 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 operation is meeting the strategy or whether any policies require revision. This report was presented to Executive on 13th November 2012. Additionally, this Council will also 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 within the strategy.

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

1.3 Treasury Management Strategy for 2013/14

The strategy for 2013/14 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators - setting out the expected capital activities;
- the MRP strategy – detailing how the Council will pay for capital assets through revenue each year.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy (relating purely to Treasury Management); and
- policy on use of external service providers.

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

Some of the areas covered by the Strategy and mentioned in the list above are included within the Treasury Management Strategy Statement 2013/14 for completeness; however it is not envisaged that all of them are required in 2013/14 i.e. borrowing strategy, policy in borrowing in advance of need and debt rescheduling. Although it is deemed at these policies will not be required in 2013/14, they are contained in the strategy and approved should the need arise within the year.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. This training is undertaken annually (wherever possible) and it is anticipated that the next training session will be incorporated in the Audit Committee meeting on 31st January 2013.

1.5 Treasury Management Consultants

Copeland recently completed a tender exercise for Treasury Management Consultancy services for three years beginning 1stAugust 2012 which was successfully awarded to Sector Treasury Services Ltd.

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

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

2. The Capital Prudential Indicators 2013/14 – 2015/16

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

2.1 Capital Expenditure Prudential Indicator

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, the detail of which is elsewhere on this agenda for consideration:

Capital Expenditure £000's	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total	**1,685**	**1,907**	**1,600**	**865**	**600**

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

The table below summarises the above capital expenditure plans and how these plans are to be financed by capital or revenue resources.

Capital Expenditure £000's	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Expenditure:	**1,685**	**1,907**	**1,600**	**865**	**600**
Financed by:					
Capital reserves	1,166	1,425	1,339	604	339
Capital grants	519	482	261	261	261
Revenue	0	0	0	0	0
Net financing need for the year	**0**	**0**	**0**	**0**	**0**

2.2 Prudential Indicator: The Council's Borrowing Need (the Capital Financing Requirement)

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

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

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £6.9m of such schemes within the CFR.

The Council is asked to approve the indicative CFR projections below:

£000's	2012/13 Revised Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total CFR (Incl. PFI and Finance Leases)	8,884	8,333	7,813	7,411
Movement in CFR	0	(551)	(520)	(402)

Net financing need for the year (above)	0	0	0	0
Less MRP/VRP and other financing movements	0	(551)	(520)	(402)
Movement in CFR	**0**	**(551)**	**(520)**	**(402)**

*Figures in brackets in the above table indicate the anticipated level of repayment for PFI/Finance Leases

2.3 Minimum Revenue Provision (MRP) Policy Statement

Authorities are not required to raise Council tax to cover depreciation, impairment losses or amortisation; however they are required to set aside a minimum (prudent) amount of revenue to contribute towards capital expenditure financed by borrowing or credit arrangements. The broad aim of the provision is to ensure that the debt is repaid over the life of the asset.

The Council is required to pay off an element of the historic unfunded 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).

MRP has existed for many years and the charge each year was a fixed rate of 4% of debt. The historical MRP calculation was based on 4% of a defined CFR level. In recent years there has been a move to make the MR charge linked to the asset for which the debt was incurred.

CLG Regulations have been issued which require the full Council to approve an **MRP Statement** in advance of each year. 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 be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1); *or*
- **Based on CFR** – MRP will be based on the CFR (option 2);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

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

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset’s life.

Repayments in year for annual PFI or finance leases are substituted as MRP.

2.4 Core Funds and expected investment balances

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 (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £000’s	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Fund balances	3,510	2,634	2,305	2,305	2,305
Capital receipts	4,046	2,856	2,397	3,662	6,324
Earmarked reserves	5,569	4,681	4,577	4,473	4,369
Provisions	193	248	248	248	248
Total Core Funds	**13,318**	**10,419**	**9,527**	**10,688**	**13,246**
Working Capital*	1,552	1,552	1,552	1,552	1,552
Under/over borrowing	3,156	2,993	2,993	2,993	2,993
Expected Investments	**18,026**	**14,964**	**14,072**	**15,233**	**17,791**

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

IMPACT OF INVESTMENT FROM CASHFLOWS

2.5 Affordability Prudential Indicators

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

2.6 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.

%	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Ratio	5.43	TBC	TBC	TBC	TBC

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

2.7 Incremental impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme (presented elsewhere on this agenda for consideration) 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.

The proposed Draft Capital Programme 2013/14 has no effect on the revenue budget and indicates no impact on Band D Council tax as shown below:

£	Original 2011/12	Revised Budget 2011/12	Forward Projection 2012/13	Forward Projection 2013/14	Forward Projection 2014/15
Council Tax - Band D	0	0	0	0	0

3. Borrowing

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

3.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2012, with forward projections are summarised below. The table shows the actual external borrowing, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting an overborrowing position.

£000's	Ref	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
External borrowing						
Borrowing at 1 April		5,000	5,000	5,000	5,000	5,000
Expected change in borrowing		0	0	0	0	0
Other long-term liabilities (OLTL)		7,366	6,877	6,326	5,806	5,404
Expected change in OLTL		0	(489)	(551)	(520)	(402)
Actual borrowing at 31 March	**a**	**12,366**	**11,877**	**11,326**	**10,806**	**10,404**
CFR – the borrowing need	b	8,419	8,884	8,333	7,813	7,411
Under / (over) borrowing	**b-a**	**(3,947)**	**(2,993)**	**(2,993)**	**(2,993)**	**(2,993)**
Investments	c	18,026	14,964	14,072	15,233	17,791
Total investments at 31 March						
Net borrowing*	**a-c**	**(5,660)**	**(3,087)**	**(2,746)**	**(4,427)**	**(7,387)**

*Actual borrowing less investments

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 total borrowing, net of any investments, 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 2013/14 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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.

3.2 Treasury Indicators – Limits to Borrowing Activity

The Operational Boundary Prudential Indicator

This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing as its purpose is to be used solely as a guideline figure.

Operational boundary £000's	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Borrowing	5,000	5,000	5,000	5,000
Other long term liabilities	7,000	7,000	7,000	7,000
Total	**12,000**	**12,000**	**12,000**	**12,000**

The Authorised Limit Prudential Indicator

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

1. This is a 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.
2. The Council is asked to approve the following authorised limit:

Authorised limit £000's	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Borrowing	9,000	9,000	9,000	9,000
Other long term liabilities	8,000	8,000	8,000	8,000
Total	**17,000**	**17,000**	**17,000**	**17,000**

3.3 Prospects for interest rates

The Council has appointed Sector 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 the Sector central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

Sector have also provided the following narrative:

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

Due to the recent increase in risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The Council's debt portfolio contains one remaining Market Loan of £5 million. We continually assess the position of this loan with our Treasury Consultants, Sector, to see whether we are securing the best terms for the Council. At the current time, the advice is to leave this loan in its present form, as the penalty for repaying early would be prohibitive.

Although, at this time it is not anticpated any further borrowing will be necessary, in the unlikely event of a need to borrow, the Section 151 Officer under delegated powers, will take the most approporate form of borrowing depending on the prevailing interest rates at the time.

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

Treasury Management Limits on Activity

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

a) Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

b) Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

c) Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

£000's	2013/14	2014/15	2015/16
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	5,100	5,100	5,100
Limits on variable interest rates based on net debt	5,100	5,100	5,100
a) Limits on fixed interest rates:			
• ***Debt only***	*5,100*	*5,100*	*5,100*
• ***Investments only***	*30,000*	*30,000*	*30,000*
b) Limits on variable interest rates			
• ***Debt only***	*5,100*	*5,100*	*5,100*
• ***Investments only***	*30,000**	*30,000**	*30,000**
c) Maturity Structure of fixed interest rate borrowing 2013/14			
		Lower	**Upper****
Under 12 months		0	100%
12 months to 2 years		0	100%
2 years to 5 years		0	100%
5 years to 10 years		0	100%
10 years to 20 years		0	100%
20 years to 30 years		0	100%
30 years to 40 years		0	100%

*This indicator is based on the number of variable interest rate accounts we hold (previously 4 but currently 6 accounts) multiplied by the monetary limit that we can invest with each institution, which is £5m each.

**This Indicator has changed from last year due to a change in 2011 guidance notes in relation to the "call date" of our £5m LOBO (lenders option, borrower's option) loan. In basic terms, the borrower has the right to request that the principal is repaid upon the date that the interest is repaid, which for Copeland is twice yearly. This is reflected by 100% maturity indicated in every category above. The likelihood of this happening is minimal given the rate of return that we are currently obligated to pay. Additionally, if there are any changes to the current loan agreement, we have the opportunity to repay the principal without any penalties, which would not be financially beneficial to the loan company.

3.5 Single Investment Transaction Limit

Every investment transaction will be subject to a maximum single investment transaction limit of £5m per counterparty.

3.6 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and risks associated will be approved and reported through the standard reporting method. Value for money and the security of such funds will also be considered.

3.7 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, at this moment the cost of repaying our £5m debt is prohibitive.

Any rescheduling decision made by the Section 151 Officer and will be reported to the Council, at the earliest meeting following its action.

4. Annual Investment Strategy

4.1 Investment Policy

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

In accordacne with guidance from the CLG and CIPFA and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore the Council's officers recognise that ratings should not be the sole deteminant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in oder 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.

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

Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'Specified' Investments (ie investments with maturities of upto a maximum of one year meeting the high quality criteria) and 'Non-Specified' Investments Categories (ie all other investments that do not meet the Specified criteria). Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

4.2 Creditworthiness policy

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

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

The Section 151 Officer will maintain a counterparty list in compliance with the criteria detailed below and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by our Treasury Consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

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

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i. Short term – F1
    ii. Long term – A-
    iii. Viability / financial strength – C (Fitch / Moody's only)
    iv. Support – 4 (Fitch only)

- Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building Societies – the council will use all societies which:
    i. meet the ratings for banks outlined above and/or
    ii. Have assets which place them in the top ten rated building societies;
- Money Market Funds – AAA
- UK Government (including gilts and the DMADF)
- Local authorities, parish councils etc.
- Supranational institutions

A limit of 50% of the whole portfolio will be applied to the use of Non-Specified investments. We currently hold 100% specified investments.

Additionally, this Council also applies the creditworthiness service provided by Sector. 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.

This alternative methodology goes beyond simply applying the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Sector 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.

Country and sector considerations

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 50% of the whole portfolio will be placed outside the UK at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings

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

Time and monetary limits applying to investments

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

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	***AA-***	**£5m**	**3yrs**
Banks 1 category medium quality	***A-***	**£3m**	**1yr**
Banks 2 category – part nationalised	**N/A**	**£7.5m***	**1yr**
Limit 3 category – Council's banker (not meeting Banks 1)	**-**	**£10k**	**1 day**
Other institutions limit	**-**	**£2m**	**1yr**
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**N/A**	**£5m**	**1yr**
Money market Funds	**AAA**	**£5m**	**liquid**

**This may be increased to an ultimate limit of £10m per part nationalised Counterparty for short term investments only and solely with the prior approval of the Section 151 Officer.*

The proposed criteria for Specified and Non-Specified investments are shown in Appendix 3 for approval.

4.3 Country limits

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

4.4 Investement Strategy

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

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014. Bank Rate forecasts for each financial year end (March) are:

- 2012/2013 0.50%
- 2013/2014 0.50%
- 2014/2015 0.75%
- 2015/2016 1.75%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.50%
2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

Against this view, we expect to be able to achieve rates of approximately 1% on 3 month investments made with the semi nationalised institutions. This is a prudent estimate based on rates currently achieved with these counterparties. It is understood, however, that these rates are not guarenteed and may change at any time.

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 28, 60 and 90 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Invesment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 364 days	
Principal sums invested > 364 days	£m 12

4.5 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.1% historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £1m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.3 years, with a maximum of 1.0 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years
Maximum	0.1%	0.25%	0.43%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 End of year investment report

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

4.7 Scheme of delegation

Please see Appendix 5.

4.8 Role of the section 151 officer

Please see Appendix 6.

5. Statutory Officer Comments

5.1 The Monitoring Officer's comments are: Report Agreed at Audit and Governance Committee – No additional comments

5.2 The Section 151 Officer's comments are: Included within the context of this report.

5.3 EIA comments:

5.4 Policy Framework:

5.5 Other Consultee Comments, if any:

List of Background Documents:
Treasury Management Strategy Statement 2012/13

List of Appendices:
Appendix 1 – Interest Rate Forecast 2013-2016
Appendix 2 – Economic Background
Appendix 3 - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Appendix 4 – Approved Countries for Investment
Appendix 5 – Treasury Management Scheme of Delegation
Appendix 6 – The Treasury Management Role of the s151 Officer

APPENDIX 1 - Interest Rate Forecast 2013/2016

Bank Rate															
	NOW	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75 %
UBS	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-

5yr PWLB Rate															
	NOW	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	**1.75%**	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90 %
UBS	**1.75%**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	**1.75%**	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-

10yr PWLB Rate															
	NOW	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	**2.72%**	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90 %
UBS	**2.72%**	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	**2.72%**	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-

25yr PWLB Rate															
	NOW	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	**3.93%**	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00 %
UBS	**3.93%**	4.00%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	**3.93%**	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-

50yr PWLB Rate															
	NOW	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	**4.11%**	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20 %
UBS	**4.11%**	4.10%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	**4.11%**	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

APPENDIX 2 - Economic Background

The Global economy

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4.

The **Eurozone sovereign debt crisis** has abated somewhat following the ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request and so surrendering its national sovereignty to IMF supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the time frame for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP i.e. unsustainably high. The question remains as to how much damage a Greek exit would do and whether contagion would spread to cause Portugal and Ireland to also leave the Euro, though the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

Hopes for a broad based recovery have, therefore, focused on the **emerging markets**. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it may be heading for a hard landing rather than a gradual slow down.

The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone, our biggest trading partner, has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. It will be important for the Government to retain investor confidence in UK gilts so there is little room for it to change course other than to move back the timeframe.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate were to become prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;

- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;

- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;

- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;

- the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;

- stimulus packages failing to stimulate growth;

- elections due in Germany in 2013;

- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

- the potential for action to curtail the Iranian nuclear programme

- the situation in Syria deteriorating and impacting other countries in the Middle East

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields

- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held

- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone

- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth

- The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's AAA rating at the start of 2013).

APPENDIX 3 - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 14/12/2010 and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

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 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 Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. 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 £5m for 3 years £5m for 3 years
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.	£5m
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.	£10k
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 which places them in the top 10 building societies, but will restrict these types of investments to 1 year in length.	£2m for 1 year
e.	Any **bank or building society** that has a minimum long term credit rating of A, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum limit of 100% but no more than £12m of investments to have maturities for longer than 1 year at any one

		time
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 the parent institution having a minimum credit rating of A (or equivalent) as rated by the three rating agencies.	£5m for 365 days

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. This criteria is a maximum amount of £18m will be invested over both categories but the length of investments will be limited to the timescale of the guarantee or 1 year whichever is the shorter.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

APPENDIX 4 - Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

APPENDIX 5 - Treasury management scheme of delegation

(i) Full Council

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

(ii) Executive

- 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;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the Executive/Full Council.

APPENDIX 6 - The treasury management role of the section 151 officer

The S151 (responsible) Officer

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