

TREASURY MANAGEMENT STRATEGY 2015/16

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 investment reduction 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.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of 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 strategy is meeting the strategy or whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Treasury Management Panel.

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 covers two main areas:

Capital issues

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

Treasury management issues

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

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

1.4 Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by providing training sessions for the Treasury Management Panel members on the subject of Treasury Management.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Capita Asset Services (formerly Sector), as its external treasury management advisors.

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

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

2. THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18

The Council's capital expenditure plans are the key driver of treasury management activity. The 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

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:

Capital expenditure	2013/14 Actual £000	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
General Fund	5,044	9,558	2,255	1,838	1,062
HRA	6,363	7,948	7,228	8,519	8,448
Total	11,407	17,506	9,483	10,357	9,510

Other long term liabilities. The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments. The authority has no finance leasing arrangements at present.

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

Capital expenditure	2013/14 Actual £000	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Total	11,407	17,506	9,483	10,357	9,510
Financed by:					
Capital receipts	2,691	2,756	530	530	530
Capital grants	328	698	306	306	306
Capital reserves	7,587	7,437	6,447	6,058	6,199
3 rd Party Contributions	600	378	100	100	100
Revenue	0	1,729	1,294	2,458	2,232
Borrowing need for the year	201	4,508	806	905	143

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

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

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

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes

The Council is asked to approve the CFR projections below:

£000	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement					
Total CFR	72,594	75,589	75,134	74,717	73,616
Movement in CFR	(888)	2,995	(455)	(417)	(1,101)

Movement in CFR represented by					
Net financing need for the year (above)	11,407	17,506	9,483	10,357	9,510
Less MRP/VRP and other financing movements	(12,295)	(14,511)	(9,938)	(10,774)	(10,611)
Movement in CFR	(888)	2,995	(455)	(417)	(1,101)

2.3 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:

2.4 Ratio of financing costs to net revenue stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. It would not be prudent for borrowing costs to be a significant proportion of net revenue either now or in the future. By estimating the ratio for at least the next three years the trend in the cost of capital (borrowing costs net of interest and investment income) as a proportion of revenue income can be seen.

%	2013/14 Actual	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
General Fund	3.24%	3.27%	3.10%	3.07%	3.00%
HRA	8.47%	8.07%	7.99%	7.63%	7.39%
Total	6.21%	6.07%	6.34%	5.74%	5.59%

2.5 Incremental impact of capital investment decisions on council tax

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

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

£	2013/14 Actual	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	NIL	NIL	NIL	NIL	NIL

For average weekly housing rents

£	2013/14 Actual	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Housing Rents	NIL	NIL	NIL	NIL	NIL

Decisions on annual rent increases are subject to rent restructuring guidelines set by Central Government. As a consequence the Government has indicated that rent levels will increase annually by Retail Price Index plus 0.5% and this should cover all additional capital expenditure. This method has been used to form part of the 30 year HRA Business Plan.

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

£000	2013/14 Actual	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt					
Debt at 1 April	60,681	55,712	59,073	58,830	58,582
Expected change in Debt	(4,969)	3,361	(243)	(248)	(254)
Actual debt at 31 March	55,712	59,073	58,830	58,582	58,328
The Capital Financing Requirement	72,594	75,589	75,134	74,717	73,616
Under / (over) borrowing	16,882	16,516	16,304	16,135	15,288

Total investments at 31 March					
Investments	19,334	17,800	15,660	14,590	14,520
Investment change	10,153	(1,534)	(2,140)	(1,070)	(70)

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within set limits. One of these is that the Council needs to ensure that its total debt, 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 2015/16 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 Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

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

Operational boundary £'000	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	101,000	106,600	100,600	99,780

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

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

The Council is asked to approve the following authorised limit:

Authorised Limit £'000	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	109,000	116,000	110,000	109,000

3.3 Prospects for interest rates

The Council has appointed Capita (formerly 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 Capita central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.00	3.30	3.30
March 2015	0.50	2.20	3.40	3.40
June 2015	0.50	2.20	3.50	3.50
Sept 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
March 2016	0.75	2.60	4.00	4.00
June 2016	1.00	2.80	4.20	4.20
Sept 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40

March 2017	1.25	3.20	4.50	4.50
June 2017	1.50	3.30	4.60	4.60
Sept 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
March 2018	2.00	3.60	4.80	4.80

Until 2013, the economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors.

There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent.

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

- As for the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need to for overdue reforms of the economy (as Ireland have done). Counterparty risks therefore remain high. This continues to suggest the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 due to the bouts of good and bad news have promoted optimism, and then pessimism, in the financial markets. The closing weeks of 2014 saw gilt yields dip to historically low levels after inflation plunged.
- The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times.

3.4 Borrowing strategy

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

The Director of Resources will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances.

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

Treasury management limits on activity

- The Council must set both upper and lower limits with respect to the maturity structure of borrowing for the following financial year. This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. Therefore the aim should be a relatively even spread of debt repayment dates.
- It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

	Upper Limit %	Lower Limit %
Under 12 months	50	0
12 months and within 24 months	50	0
24 months and within 5 years	100	0
5 years and within 10 years	100	0
10 years and within 20 years	100	0
20 years and within 30 years	100	0
30 years and within 40 years	100	0
40 years and within 50 years	100	0
50 years and above	100	0

3.5 Current Portfolio Position

The Council's treasury debt portfolio position at 31st December 2014 comprised:

		Principal	Ave. rate
		£m	%
Fixed rate borrowing	PWLB	43.12	3.78
	Market	<u>15.90</u>	<u>4.00</u>
		59.02m	3.84
Temporary Borrowing	LA's	<u>2.00</u>	0.45
TOTAL DEBT		<u>61.02m</u>	3.72
TOTAL INVESTMENTS		20.39m	0.65

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 will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

3.7 Debt rescheduling

The Council will continue to maintain a flexible policy for debt rescheduling. As short term borrowing rates will be considerably cheaper than longer fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt premium repayment. The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the ratio of fixed to variable debt
- Amending the profile of maturing debt to reduce inherent refinancing risks.

Any rescheduling activity will be undertaken following the rationale within the Council's Treasury Management Strategy. The Director of Resources (Designated Section 151 Officer) will agree in advance with Capita or the strategy and framework within which debt will be repaid/rescheduled if opportunities arise. Thereafter the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by Capita and discussed with the Council's treasury officers.

All rescheduling activity will comply with the accounting requirements of the local authority Code of Practice and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).

All rescheduling and any new long term borrowing undertaken will be reported to the Treasury Management Panel at the meeting following its action.

3.8 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This council could make use of this new source of borrowing as and when required.

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 and then return.

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

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it

relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita, in producing its colour codings which show the varying degrees of suggested creditworthiness.

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

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.

4.2 Specified and Non- Specified Investments

Specified Investments are investments offering high security and high liquidity. The investments will be sterling denominated with maturities up to a revised maximum of one year and meet the minimum 'high' credit rating criteria where applicable. Instruments identified for use in the financial year are listed in table below under the 'specified' and 'non-specified' investments categories.

SPECIFIED INVESTMENTS

All 'Specified and Non Specified Investments' listed below must be sterling-denominated.

The types of investments that will be used by the Council

Investment	Max Sum per institution/group	Maximum period
Debt Management Agency Deposit Facility* (DMADF) <ul style="list-style-type: none"> • this facility is at present available for investments up to 6 months 	UNLIMITED	6 months
UK Government Gilts	£2m	2 years
UK Government Treasury Bills	UNLIMITED	1 year

Term deposits with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	£7m	2 years
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year (UK & Non-UK)	£7m	1 year
Money Market Funds with UK/Ireland/Luxembourg domiciled	£1m	1 year
Corporate Bonds held in a broker's nominee account (King & Shaxson Ltd)	£2m	2 years to maturity
T-Bills issued by the DMO (Government)	UNLIMITED	1 year
Certificates of deposit (CD's) issued by banks and building societies covered by UK Government (explicit) guarantee	£7m	2 years

Non-specified investments are of greater potential risk and cover deposit periods over one year. Capita continue to maintain the view that, for the time being, clients should look to the short end of the market when making investment decisions and it is the intention of this Council to lend for a maximum period of two years as recommended by Capita. The exception to this is the loan made to Gloucestershire Airport Company which the Council could lend up to three years. The Council does have a 50% share in the airport.

4.3 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No colour not to be used

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

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, and a minimum rating of AA- for non-UK banks. Appendix X shows the current list in use at the time of this report. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly and upon any adhoc changes. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

4.4 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of **AAA** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

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

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

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

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

2015/16 0.60%
 2016/17 1.25%
 2017/18 1.75%

4.5 Council's Banker

The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Council's intention that even if the credit rating of Lloyds Bank falls below the minimum criteria A the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

4.6 Annual Minimum Revenue Provision (MRP) Statement

The annual MRP Statement is disclosed in Appendix 4.

4.7 Balanced Budget Requirement

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

4.8 Reporting on the Treasury Outturn

The Director of Resources, (Designated Section 151 Officer) will report to Council on its treasury management activities and performance against the strategy at least twice a year, one at mid year and a year end review at closedown time.

The Treasury Management Panel will be responsible for the scrutiny of treasury management activity and practices.

4.9 Other Items

4.10 Training

In CIPFA's Code for Treasury Management, it requires the Director of Resources (Designated Section 151 Officer) to ensure that all appropriate staff and members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their

needs and understand fully their roles and responsibilities. Training requirements will be identified and any shortfalls will be met by Sector or other organisations.

4.11 Treasury Advisors

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external advisors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The Council appointed Capita Asset Services Ltd (formerly known as Sector) as its external advisor in December 2012. They provide us with information, advice and assistance in all areas of treasury. The Council aims to have a close working relationship with Capita and will be in contact with their advisors on a regular basis (weekly) and daily if necessary. A detailed schedule of services is listed within the contract. The Council recognises that responsibility for treasury management decisions remains with the Council at all times.