St Albans City and District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2014/15

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash expenditure during the year will be met by cash raised. 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 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 are an important factor in calculating the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

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

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

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

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the Council's requirements 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 this strategy.

Scrutiny

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

1.3 Treasury Management Strategy for 2014/15

The strategy for 2014/15 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- 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 CIPFA Code requires the responsible officer (for this Council, the Deputy Chief Executive (Finance)) to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny.

The needs of the Council’s treasury management staff for training in investment management are assessed every year as part of the staff appraisal process and additionally when the responsibilities of individual members of staff change. Officers regularly attend training courses, seminars and conferences provided by Capita Asset Services and CIPFA.

1.5 Treasury management consultants

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

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

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

2. Capital Issues

2.1 Capital Plans

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

The last three years have been extraordinary in terms of capital spend with the introduction of Housing Self Financing (HSF) from April 2012, the build of the Westminster Lodge leisure facility and more recently the Batchwood Leisure facilities.

General Fund capital spend is forecast to be £11.1 million in 2014-15 consisting mainly of replacement of Batchwood Tennis leisure facilities following the fire in 2012 , the Council's spend on the Cotlandswick leisure project (£3.0 million) and the New Museums and Galleries project (£6.0 million). The HRA spend on ongoing enhancements to housing stock in 2014-15 is forecast to be £13.8 million (inclusive of £3.2 million carried forward from 2013-14), which will be met from housing rental income. Other housing expenditure is forecast to be £3.3 million (inclusive of £1.1 million carried forward from 2013-14), which will be met from accumulated capital receipts.

2.2 Capital Prudential Indicators 2014/15 – 2016/17

Capital Expenditure. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of the 2014/15 budget cycle.

Capital Expenditure	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£'M	£'M	£'M	£'M	£'M
General Fund	**13.1**	**10.8**	**11.1**	**-**	**-**
Housing Investment Programme					
Housing stock enhancements	9.5	12.5	13.8	10.6	10.6
Non-HRA items	0.8	0.8	3.3	2.1	2.1
Total Housing Investment Programme	**10.3**	**13.3**	**17.1**	**12.7**	**12.7**
Total capital expenditure	**23.4**	**24.1**	**28.2**	**12.7**	**12.7**

Capital financing. The tables below show how the capital expenditure plans above are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Financing Total	2012/13 Actual £'M	2013/14 Estimate £'M	2014/15 Estimate £'M	2015/16 Estimate £'M	2016/17 Estimate £'M
Total Spend	**23.4**	**24.1**	**28.2**	**12.7**	**12.7**
Financed by:					
Capital Receipts	0.7	2.1	3.3	2.2	2.2
Capital Grants and contributions	1.3	7.6	7.9	0.5	0.5
Capital Reserves	0.2	-	-	-	-
Revenue/revenue reserves	8.0	10.9	13.2	10.0	10.0
Total Financed	**10.2**	**20.6**	**24.4**	**12.7**	**12.7**
Net funding need for the year	**13.2**	**3.5**	**3.8**	**-**	**-**

Financing GF	2012/13 Actual £'M	2013/14 Estimate £'M	2014/15 Estimate £'M	2015/16 Estimate £'M	2016/17 Estimate £'M
GF spend	**13.1**	**10.8**	**11.1**	**-**	**-**
Financed by:					
Capital Receipts	0.4	-	-	-	-
Capital Grants and contributions	1.0	6.8	7.3	-	-
Capital Reserves	0.2	-	-	-	-
Revenue/revenue reserves	-	0.5	-	-	-
GF financed	**1.6**	**7.3**	**7.3**	**-**	**-**
GF funding need for the year	**11.5**	**3.5**	**3.8**	**-**	**-**

Financing HIP	2012/13 Actual £'M	2013/14 Estimate £'M	2014/15 Estimate £'M	2015/16 Estimate £'M	2016/17 Estimate £'M
HIP spend	**10.3**	**13.3**	**17.1**	**12.7**	**12.7**
Financed by:					
Capital Receipts	0.3	2.1	3.3	2.2	2.2
Capital Grants and contributions	0.3	0.8	0.6	0.5	0.5
Capital Reserves	-	-	-	-	-
Revenue/revenue reserves	8.0	10.4	13.2	10.0	10.0
HIP financed	**8.6**	**13.3**	**17.1**	**12.7**	**12.7**
HIP funding need for the year	**1.7**	**-**	**-**	**-**	**-**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). This shows the total of historic capital expenditure which has not yet been paid for from either revenue or capital resources, which may be internal (use of cash balances) or by external borrowing.

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Capital Financing Requirement (CFR) TOTAL	2012/13 Actual £'M	2013/14 Estimate £'M	2014/15 Estimate £'M	2015/16 Estimate £'M	2016/17 Estimate £'M
Brought Forward	**200.7**	**212.5**	**214.5**	**214.1**	**209.0**
Capital Spend	23.4	24.1	28.2	12.7	12.7
Financed	(10.2)	(20.6)	(24.4)	(12.7)	(12.7)
MRP/VRP	(1.4)	(1.5)	(4.2)	(5.1)	(7.8)
Movement in CFR	**11.8**	**2.0**	**(0.4)**	**(5.1)**	**(7.8)**
Closing CFR balance	**212.5**	**214.5**	**214.1**	**209.0**	**201.2**

Capital Financing Requirement (CFR) GF	2012/13 Actual £'M	2013/14 Estimate £'M	2014/15 Estimate £'M	2015/16 Estimate £'M	2016/17 Estimate £'M
Brought Forward	**11.2**	**22.4**	**25.4**	**28.5**	**27.7**
Capital Spend	13.1	10.8	11.1	-	-
GF financed	(1.6)	(7.3)	(7.3)	-	-
MRP	(0.3)	(0.5)	(0.7)	(0.8)	(0.8)
Movement in CFR	**11.2**	**3.0**	**3.1**	**(0.8)**	**(0.8)**
Closing CFR balance GF	**22.4**	**25.4**	**28.5**	**27.7**	**26.9**

Capital Financing Requirement (CFR) HRA	2012/13 Actual £'M	2013/14 Estimate £'M	2014/15 Estimate £'M	2015/16 Estimate £'M	2016/17 Estimate £'M
Brought Forward	**189.5**	**190.1**	**189.1**	**185.6**	**181.3**
Capital Spend	10.3	13.3	17.1	12.7	12.7
Housing financed	(8.6)	(13.3)	(17.1)	(12.7)	(12.7)
VRP	(1.1)	(1.0)	(3.5)	(4.3)	(7.0)
Movement in CFR	**0.6**	**(1.0)**	**(3.5)**	**(4.3)**	**(7.0)**
Closing CFR balance HRA	**190.1**	**189.1**	**185.6**	**181.3**	**174.3**

MRP/VRP: Minimum or Voluntary Revenue Provision as defined in 2.4 below

2.4 Minimum revenue provision (MRP) policy statement or Debt Repayment Provisions Policy

The Council is required to put aside money to pay off its General Fund debt each year, and is required to adopt a policy to determine the basic amount of this – called the minimum revenue provision - MRP (although it is also allowed to undertake additional voluntary payments if it wishes (voluntary revenue provision - VRP).

The Council's policy is that for all unsupported borrowing, the MRP policy will be calculated using the Asset Life Method – i.e. the MRP will be based on the estimated life of the assets, which provides for a reduction in the borrowing over approximately the asset's expected useful life.

Within the asset life method there is the option of providing MRP on a straight line basis or an annuity basis. For income producing assets where income is expected to increase over time, the asset value is high and the asset life is long, it is appropriate to use the annuity method. This takes into account the time value of money in that the annual MRP provision increases each year in line with an estimated interest rate. Council agreed at the 2013/14 budget setting that MRP be provided for Westminster Lodge over 35 years with an interest rate of 2.2%.

Under HSF reform the HRA is required to charge depreciation on its assets, which has a revenue effect. In order to address any possible adverse impact, regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years however this option was not required in 2012/13. The provision for depreciation provides cash for capital enhancements.

There is no requirement to provide MRP in the HRA but a voluntary provision has been incorporated into the 30 year business plan to enable repayment of debt to be made when it becomes due.

2.6 Affordability Prudential Indicators

The previous sections show capital expenditure and borrowing prudential indicators but within this framework we also need prudential indicators to assess the affordability of the capital investment plans i.e. the impact on revenue. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.6.1 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 Council's net revenue stream for the General Fund and the HRA.

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£'M	£'M	£'M	£'M	£'M
General Fund	0.4%	4.1%	4.4%	5.6%	5.6%
HRA	72.7%	68.3%	71.1%	70.1%	70.5%

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

Financing costs at these levels are sustainable in the short, medium and long term based on the 10 year GF plan and the 30 year HRA plan.

2.6.2 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.

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

GF	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council tax implication band 'D' £	**(0.38)**	**(1.13)**	**(0.03)**	**(0.52)**	**-**

2.6.3 Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

HRA	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Housing rent implication per week £	**(0.12)**	**0.09**	**0.12**	**(0.14)**	**-**

This indicator shows the revenue impact on proposed changes against the approved 2012/13 capital budget.

2.6.4 HRA ratios

These are new ratios required by the 2013 Prudential code. The first table highlights how the debt revenue ratio decreases as debt is repaid and rental income increases.

HRA	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£'m	£'m	£'m	£'m	£'M
HRA debt £m	191.1	190.1	186.6	184.6	180.4
HRA revenues £m	25.3	25.9	27.0	28.2	29.5
Ratio debt to revenues	**755.3%**	**734.0%**	**691.1%**	**654.6%**	**611.5%**

The next table shows how the debt per property decreases as debt is repaid even though the number of properties reduces each year by the estimated number of right to buy sales.

HRA	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£'m	£'m	£'m	£'m	£'M
HRA debt £m	191.1	190.1	186.6	184.6	180.4
Number of HRA dwellings	5,118	5,093	5,078	5,068	5,058
Debt per dwelling £	**37,339**	**37,326**	**36,747**	**36,425**	**35,666**

3. Treasury Management Issues

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 relevant professional codes. 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 External Borrowing Requirements

The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The model is used to highlight any amounts of external borrowing required each year in order to manage the capital plans in 2 above.

Assumptions:
Balanced GF and HRA budgets
No change to working capital requirements
No slippage in capital programmes

Balance Sheets	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
CFR closing	**212.5**	**214.5**	**214.1**	**209.0**	**201.2**
Reserves & Balances	(24.1)	(25.3)	(21.8)	(22.4)	(22.8)
Working capital surplus	(7.2)	(8.0)	(8.0)	(8.0)	(8.0)
Cash and investments opening	9.9	9.9	8.9	2.3	6.0
Movements before debt items	-	-	(3.1)	5.7	8.2
Debt repayment	-	(1.0)	(3.5)	(2.0)	(4.2)
Borrowing required	-	-	-	-	-
Cash and investments closing	9.9	8.9	2.3	6.0	10.0
(Under)/over borrowed	**(21.4)**	**(24.4)**	**(27.5)**	**(24.4)**	**(20.8)**
	191.1	**190.1**	**186.6**	**184.6**	**180.4**
External borrowing	191.1	191.1	190.1	186.6	184.6
Increase in borrowings	-	-	-	-	-
Debt repayment	-	(1.0)	(3.5)	(2.0)	(4.2)
External Borrowing balance (Gross Debt)	**191.1**	**190.1**	**186.6**	**184.6**	**180.4**

We currently forecast that no additional external borrowing is necessary in the period covered by this report.

3.2 Borrowing Limits

The Operational Boundary.

This focuses on the day-to-day treasury management activity. Total external borrowing is not normally expected to exceed this limit.

We propose no change from previously authorised limits, which are:

Operational Boundary for External Debt	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£'M	£'M	£'M	£'M	£'M
General Fund	20	20	20	20	20
HRA	192	192	192	192	192
Other Long Term Liabilities	1	1	1	1	1
Total	**213**	**213**	**213**	**213**	**213**

The Authorised Limit for external borrowing.

This 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, the Council could afford in the short term, but is not sustainable in the longer term. It gives some headroom for unforeseen requirements or delays in capital receipts.

We propose no change from previously authorised limits, which are:

Authorised Limit for External Debt	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£'M	£'M	£'M	£'M	£'M
General Fund	27	27	27	27	27
HRA	192	192	192	192	192
Other Long Term Liabilities	1	1	1	1	1
Total	**220**	**220**	**220**	**220**	**220**

Separately, the Council is also limited to a maximum HRA position through the HSF regime. This limit is currently £192 million and as we borrowed up to the maximum allowed, the Operational and Authorised Limits for the HRA are the same.

3.3 Prospects for Interest Rates

Capita Asset Services' view on interest rates and economic outlook are given below.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been very slow by historic standards . However, growth has increased during 2013 above many expectations.

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

- Although Eurozone concerns have subsided to an extent in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. 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 even higher borrowing costs, which are now looming ever closer, where the Council will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will be a cost of carrying any new borrowing which is invested as borrowing costs are higher than investment returns.

3.2 Treasury Management Indicators within the Treasury Management Code

The purpose of these indicators is 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 restrictively they will impair the opportunities to reduce costs / improve performance. The indicators are:

Interest Rate Exposure:

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures, expressed as a percentage of net principal borrowed will be:

	2014/15	2015/16	2016/17
	%	%	%
Upper Limit on Fixed Interest Rate Exposure	100.00%	100.00%	100.00%
Upper Limit on Variable Interest Rate Exposure	10.00%	10.00%	10.00%

i.e. up to 100% of borrowing can be at fixed rates, or up to 10% at variable rates.

All current borrowings are at fixed rates and therefore the recommendation is that officers retain full flexibility in taking out fixed or variable rate on any future loans.

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to risk from having to pay back significant amounts of debt all at the same time. The upper and lower limits on the maturity structure of fixed rate borrowings have been kept broad to allow flexibility in the structuring of debt and remain at:

	Upper Limit	Lower Limit
	%	%
Under 12 months	10.0	-
12 months and within 24 months	10.0	-
24 months and within 5 years	20.0	-
5 years and within 10 years	50.0	20.0
10 years and within 20 years	80.0	50.0

Principal sums Invested for Periods longer than 364 days

It is suggested that the limit for this remain at £1m so that if attractive rates are available for longer term investment it will be possible to take these up.

	2014/15	2015/16	2016/17
	£m	£m	£m
Limit on principal invested beyond 12 months	1.0	1.0	1.0

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position, i.e. it is running down its investments balances rather than borrow. This strategy is prudent as investment returns are low and counterparty risk is high.

Against a background of risks within the economic forecast, caution will be adopted with the 2014-15 treasury operations. The Deputy Chief Executive (Finance) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances in deciding whether to take out fixed or variable rate loans.

The Council may also borrow for short periods of time (normally for up to two weeks) to cover unexpected cash flow shortages.

Sources of Borrowing

The approved sources of long-term borrowing will be:

- Public Works Loans Board
- Any Institution approved for investment
- Any Bank or Building Society approved by the Financial Services Authority.

3.4 Policy on Borrowing in Advance of Need

The Council may borrow in advance of need for short periods where a review of capital spending profile and views on future interest rates makes it economically attractive.

3.5 Policy on charging interest to the Housing Revenue Account

Following the reform of housing finance, the Council is free to adopt its own policy on sharing interest costs and income between the General Fund and Housing Revenue Account (HRA). The CIPFA Code recommends that authorities state their policy on this matter each year in their treasury management strategy.

On 1 April 2012, the Council assigned the long term HSF loan to the HRA pool and new long-term loans borrowed will be assigned in their entirety to either the General Fund or the HRA pool. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be allocated in line with each specific loan. Differences between the value of the HRA loans' pool and the HRA's underlying need to borrow (i.e. adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the monthly net average rate earned by the Council on its portfolios of treasury investments and short-term borrowing.

3.6 Investment Strategy

Investment Policy: The Council's investment policy has regard to the DCLG'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; then
- Liquidity; then
- Return.

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

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

In accordance with the above, 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. 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 Deputy Chief Executive (Finance) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

3.7 Creditworthiness policy

3.7.1 Credit Ratings

The Council utilises the creditworthiness service provided by Capita Asset Services. This service employs a modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

This results in three suggested credit assessments as follows:

A) Based on the credit ratings of the agencies only
B) Adjusted for watch/outlook
C) Where applicable the end result is adjusted for Credit Default Swap (CDS) information with a manual override.

These indicate an overall assessment of the relative creditworthiness of counterparties at increasing levels of risk aversion.

This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The approach being suggested 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.

Officers propose to continue to use the lowest risk rating 'C' for all investments.

3.7.2 Credit Periods

Capita Asset Services then allocate a colour code within each credit assessment level to indicate the maximum duration period for each counterparty.

Officers propose that the Council continue to use the maximum investment duration indicated by Capita Asset Services.

3.7.3 Country Limits

Council agreed at the meeting of 26th February 2013 that 20% of funds invested, measured at the time the investment is made, can be invested in non-UK banks that are OECD member countries.

Officers propose no change to these limits.

3.7.4 List of Counterparties

The application of the credit ratings, credit periods and country limits lead to an amended list of counterparties each with 3 credit assessments with associated maximum investment durations.

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

If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria;

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to recall or sale of all other existing investments with the affected counterparty.

A list of counterparties amended by the country limits is shown at appendix 1. Capita Asset Services update the list on a weekly basis.

3.7.5 Counterparty Limits

Counter party limits for value and period by type of counterparty are proposed by officers, in consultation with the Resources Portfolio Holder, with a view to having a mixed bag of investments, limiting exposure to any one counterparty and limiting exposure to long term deposits.

The counterparty limits are shown at appendix 2.

3.7.6 Non-specified investments

The Council is required to state whether it is intending to use any of what the Government calls "Non-specified investments" (See appendix 2). It is proposed that SADC's policy will be that the only situation where we will use these is in the case of long-term investments, i.e. those that would meet the definition of a specific investment, but for the fact that they are due to mature 12 months or longer from the date of arrangement.

The limit for these Non-Specified investments will be £1m (see 3.2 above)

Appendices

1. Capita Asset Services listing of Qualifying Counterparties (as at 14/12/12)
2. Treasury Management Criteria Summary
3. Example of weekly investment list
4. Four Clauses adopted from CIPFA's Treasury Management Code of Practice

Appendix 1

Capita Asset Services listing of Qualifying Counterparties (as at 14/12/12)

Showing suggested maximum duration of investment.

Weekly Credit List: 27/12/2013				
	A Suggested Duration	B Suggested Duration (Watch/Outlook Adjusted)	C Suggested Duration (CDS Adjusted with manual override)	
Australia				
Australia and New Zealand Banking Group Ltd	O - 12 mths	O - 12 mths	R - 6 mths	
Commonwealth Bank of Australia	O - 12 mths	O - 12 mths	R - 6 mths	
National Australia Bank Ltd	O - 12 mths	O - 12 mths	R - 6 mths	
Westpac Banking Corporation	O - 12 mths	O - 12 mths	R - 6 mths	
Belgium				
BNP Paribas Fortis	G - 100 days	G - 100 days	G - 100 days	
Canada				
Bank of Montreal	O - 12 mths	O - 12 mths	O - 12 mths	
Bank of Nova Scotia	O - 12 mths	O - 12 mths	O - 12 mths	
Canadian Imperial Bank of Commerce	O - 12 mths	O - 12 mths	O - 12 mths	
National Bank of Canada	R - 6 mths	R - 6 mths	R - 6 mths	
Royal Bank of Canada	O - 12 mths	O - 12 mths	O - 12 mths	
Toronto Dominion Bank	P - 24 mths	P - 24 mths	P - 24 mths	
Finland				
Nordea Bank Finland plc ~	O - 12 mths	O - 12 mths	O - 12 mths	
France				
BNP Paribas	R - 6 mths	G - 100 days	G - 100 days	
Credit Industriel et Commercial	R - 6 mths	R - 6 mths	R - 6 mths	
Germany				
Deutsche Bank AG	G - 100 days	G - 100 days	G - 100 days	
DZ Bank AG (Deutsche Zentral-Genossenschaftsba	G - 100 days	G - 100 days	G - 100 days	
Landesbank Berlin AG	G - 100 days	G - 100 days	G - 100 days	
Landesbank Hessen-Thueringen Girozentrale (Hela	G - 100 days	G - 100 days	G - 100 days	
Landwirtschaftliche Rentenbank	O - 12 mths	O - 12 mths	O - 12 mths	
Luxembourg				
Banque et Caisse d'Epargne de l'Etat	R - 6 mths	R - 6 mths	R - 6 mths	
Clearstream Banking	P - 24 mths	P - 24 mths	P - 24 mths	
Netherlands				
Bank Nederlandse Gemeenten	P - 24 mths	P - 24 mths	P - 24 mths	
Cooperatieve Centrale Raiffeisen Boerenleenbank	O - 12 mths	R - 6 mths	R - 6 mths	
ING Bank NV	G - 100 days	G - 100 days	G - 100 days	
Norway				
DnB Bank	R - 6 mths	R - 6 mths	R - 6 mths	
Sweden				
Nordea Bank AB	O - 12 mths	O - 12 mths	O - 12 mths	
Skandinaviska Enskilda Banken AB	R - 6 mths	R - 6 mths	R - 6 mths	
Swedbank AB	R - 6 mths	R - 6 mths	R - 6 mths	
Svenska Handelsbanken AB	O - 12 mths	O - 12 mths	O - 12 mths	*
Switzerland				
Credit Suisse AG	G - 100 days	G - 100 days	G - 100 days	
UBS AG	G - 100 days	G - 100 days	G - 100 days	

U.S.A	A	B	C	
Bank of America, N.A.~	G - 100 days	G - 100 days	G - 100 days	n
Bank of New York Mellon, The	O - 12 mths	O - 12 mths	O - 12 mths	
Citibank, N.A. ~	G - 100 days	G - 100 days	G - 100 days	n
HSBC Bank USA, N.A.	R - 6 mths	R - 6 mths	R - 6 mths	
JP Morgan Chase Bank NA	R - 6 mths	R - 6 mths	R - 6 mths	
Northern Trust Company	G - 100 days	G - 100 days	G - 100 days	
State Street Bank and Trust Company	O - 12 mths	O - 12 mths	O - 12 mths	
Wells Fargo Bank NA	O - 12 mths	O - 12 mths	O - 12 mths	
U.K Banks and Building Societies				
Bank of New York Mellon (International) Ltd	O - 12 mths	O - 12 mths	O - 12 mths	
Cater Allen	G - 100 days	G - 100 days	G - 100 days	n
Credit Suisse International	R - 6 mths	R - 6 mths	R - 6 mths	
Goldman Sachs International Bank ~	R - 6 mths	R - 6 mths	G - 100 days	n
HSBC Bank plc	O - 12 mths	O - 12 mths	O - 12 mths	*
MBNA Europe Bank	R - 6 mths	R - 6 mths	R - 6 mths	
Santander UK plc	G - 100 days	G - 100 days	G - 100 days	n *
Standard Chartered Bank	O - 12 mths	O - 12 mths	R - 6 mths	
Sumitomo Mitsui Banking Corporation Europe Ltd	G - 100 days	G - 100 days	G - 100 days	
UBS Ltd	R - 6 mths	R - 6 mths	R - 6 mths	
Nationwide BS	G - 100 days	G - 100 days	G - 100 days	
AAA rated and Government backed securities	-	-	-	
Collateralised LA Deposit*	Y - 60 mths	Y - 60 mths	No Data Available	
Debt Management Office	Y - 60 mths	Y - 60 mths	No Data Available	
Supranationals	Y - 60 mths	Y - 60 mths	No Data Available	
UK Gilts	Y - 60 mths	Y - 60 mths	No Data Available	
Nationalised & Part-Nationalised				
Lloyds Banking Group plc	-	-		
Bank of Scotland Plc	B - 12 mths	B - 12 mths	Not Applicable	
Lloyds Bank Plc	B - 12 mths	B - 12 mths	Not Applicable	*
Royal Bank of Scotland Group plc	-	-		
National Westminster Bank Plc	B - 12 mths	B - 12 mths	Not Applicable	
The Royal Bank of Scotland Plc	B - 12 mths	B - 12 mths	Not Applicable	*
Ulster Bank Ltd	B - 12 mths	B - 12 mths	Not Applicable	

KEY
* Invested with at 03/01/14 see appendix 3
n New counterparty from last year's list

The only other change since last year is the exclusion of Barclays

Includes Foreign banks in OECD countries
Maximum non-UK investment to be 20% of total investments at time of investment
Column C in the table above will be used for all investments.

Y	Yellow	60 months
P	Purple	24 months
B	Blue	12 months #
O	Orange	12 months
R	Red	6 months
G	Green	3 months

Nationalised and part nationalised

Appendix 2

Treasury Management Criteria Summary

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to the suggested duration as calculated by Capita Asset Services from time to time.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. For this Council these are qualifying investments with maturities exceeding one year. A maximum of £1m will be held in aggregate in non-specified investments.

Country Limits

UK: 100%

Non-UK: 20% (measured as at time of investment) **and** OECD membership countries **and** restricted to countries rated AAA with all three rating agencies.

Qualifying Counterparties

Counterparties appearing on the Capita Asset Services list of qualifying counterparties from time to time, together with UK local authorities or supranationals.

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):

	Existing Limit	Proposed Limit	Max. maturity period	Sector Rating
Cash deposits with DMO at the Bank of England	No limit	No limit	Liquid	N/A
Cash or Term deposits with Local authorities	£5m	£5m	3 years	N/A
Cash or Term deposits with UK Nationalised and Part Nationalised Banks	Not specified	£5m	On call	C
	£5m	£5m	Up to 1 year	C
	£1m	£1m	Up to 3 years	C
Cash or Term deposits with banks and building societies (per Capita Asset Services list as updated from time to time)	Not specified	£5m	On call	C
	£5m	£5m	Up to 3 months	C
	£2m	£2m	Over 3 months up to I year	C
	£2m	£1m	Over 1 year up to 2 years	C
	£2m	£1m	Over 2 years up to 3 years	C

Key:

B Adjusted for watch/outlook column of Capita Asset Services credit rating list (Appendix 1)
C CDS adjusted with manual override column of Capita Asset Services credit rating list (Appendix 1)

Other
The local authority limit applies to the entire Local Authority sector.

A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Appendix 3

Example of investment list using the list in appendix 1 and the criteria in appendix 2

SUMMARY OF INVESTMENTS W/E - 03.01.14

BORROWER	LIMIT £	START DATE	END DATE	INT RATE	INV VALUE £	*Investments Previous Week* £
Deposits with DMO	Unlimited					
					0	*0*
Deposits with Other Local Authorities (up to 3 years)	5,000,000					
					0	*0*
Deposits with UK nationalised and part nationalised (up to 12mths)	5,000,000					
Lloyds Banking Group (special rate podium deposit)		04.06.13	03.06.14	1.050%	5,000,000	*5,000,000*
Royal Bank of Scotland		various	CALL	0.600%	5,000,000	*5,000,000*
					10,000,000	*10,000,000*
UK Banks and Building Societies	5,000,000					
Barclays Bank PLC *(0 - 3mths)*						
					0	*0*
Nationwide B S *(0 - 6mths)*						
					0	*0*
HSBC Bank PLC *(0 - 12mths)* *Variable Rates Apply:* *0.50% - £5m+* *0.45% - £3m to £4,999,999* *0.35% - £1m to £2,999,999* *0.25% - below £1million*	5,000,000			0.500%	5,000,000	*2,725,000*
					5,000,000	*2,725,000*
Santander			Call	0.900%	5,000,000	*5,000,000*
					10,000,000	*7,725,000*
Non UK, Non Eurozone Banks (No more than 20%, measured at the time of investment)	5,000,000					
Handelsbanken *(0 - 12mths)*		various	CALL	0.650%	5,000,000	*5,000,000*
					5,000,000	*5,000,000*
			TOTAL		25,000,000	*22,725,000*

The institutions available for investment and actual period limits will be determined by Capita Asset Services's credit rating list issued from time to time – see appendix 1 and using the monetary limits set by Council – see apendix 2.

Appendix 4

Four Clauses adopted from CIPFA's Treasury Management Code of Practice

The Council has adopted the key principles of CIPFA's *2011 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance* (the Code), as described in Section 4 of that Code.

1. The Council will create and maintain, as the cornerstones for effective treasury management:
    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
    - suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

    The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its financial year-end, in the form prescribed in its TMPs.

3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to the Deputy Chief Executive (Finance), who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Statement of Professional Practice on Treasury Management.

4. This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.