1. Treasury Management Strategy 2014/15

1.1 This Strategy Statement has been prepared in accordance with the CIPFA Treasury Management Code 2011. This requires the Council's Treasury Management Strategy to be approved annually by the Council but also there is a requirement to produce a mid year report, plus there will be monitoring reports and regular reviews to Members in both Executive and Scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 The Act therefore requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 **Borrowing Strategy**-The Operational and Authorised Borrowing Limits have to be approved before the start of each financial year.

1.4 The (revised 2013/14 limits and) proposed limits for 2014/15 are:-

- Authorised Borrowing Limit - (£230.371Million 2013/14), £231.998Million
- Short Term Borrowing Limit included above - (£5Million 2013/14), £5Million
- Variable Interest Proportion Limit - (100% 2013/14), 100% new borrowing.

1.5 Based on the current capital programme resourcing projections, the Council will need to borrow to maintain its existing fixed assets. It is anticipated that the Council will need to borrow £2.306Million in 2014/15. The borrowing to fund the resources shortfall could be accessed from the Public Works Loan Board (PWLB), however borrowing would cost around 4.5% and the interest earned on investments is only 0.55%, this will be therefore be achieved by means of internal borrowing. In addition to borrowing required to fund the capital programme, there is a further £5.189Million of apportioned debt from the HRA as part of the Self Financing settlement. This is included in the Capital Financing Requirement. The current interest rate for borrowing over 25 years is 4.39%.

1.6 **Prospect for Interest Rates**-The base rate at the start of the financial year was 0.5% while this is a very low rate there are mixed views as to how quickly rates will rise. Our Treasury Advisor, Sector's forecast is that rates will rise to 0.75% in June 2016 and continue to rise steadily to 1.25% in March 2017. The current benchmark interest rates for investments are:

One month	0.36%
Three months	0.40%
Six months	0.47%
One Year	0.76%

The Council has average returns for 2013/14 of 0.56%, and is budgeting for returns of 0.55% in 2014/15.

2. Investment Strategy 2014/15

2.1 The Council is required to prepare an Annual Investment Strategy. The Council will have regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2011 CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

(a) the security of capital and

(b) the liquidity of its investments.

2.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.3 The borrowing of monies purely to invest or on-lend in order to make a return is unlawful and this Council will not engage in such activities.

2.4 There is currently a preference to invest with UK banks which have the backing of the British Government, (Appendix A attachment 3.) However it is getting progressively more difficult to find names which meet the stringent criteria in place. The Council only invests in counterparties with a high credit rating and in specified countries as listed in Appendix A attachment 4. In order to allow flexibility in the Council's portfolio of investments, it may be prudent to spread investments over a one to five year period, and following the lifting of the three month restriction advised by Capita it is recommended that this be increased to five years. Therefore it is proposed that in 2014/15;

- The lending limit remains at £5Million per group;
- Investments can be dealt for up to five years with the Strategic Director (Resources) approval and limited to those institutions which meets Council's minimum 'high' credit rating criteria, (Appendix A, Attachment 3);
- No lending limit for deposits with DMO;
- The lending limit is set at £5Million per Money Market Fund, and £15Million for all Money Market Funds (MMF);
- The lending limit for MMF is no more than 35% of all investment portfolios.

2.5 The principal consideration when undertaking an investment is the Council's cash flow requirements, i.e. investments are scheduled to mature on a date when it is known large cash flows will occur. When surplus cash becomes available for investment, it is used to maintain a balanced investment portfolio. As at the end December 2013 the total investments were £23.01Million with an average return to date on investments this year at 0.56%.

2.6 A list of the types of instruments comprising Specified and Non-Specified Investments is attached at Appendix A, Attachment 3.

3 Creditworthiness policy

3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield 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.

3.2 The Director of Finance will maintain a counterparty list in compliance with the criteria specified in the Strategy 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.

3.3 The Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties. Additional market information will be applied to compare the relative security of differing investment counterparties, such as:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

3.4 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources

3.5 The Council is not proposing to use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. This is because Moodys have a tendency to give much lower ratings than the other two agencies. Officers are content that the Sector model provides the Council with a sophisticated tool. In addition the current approach uses the ratings of two of three main agencies, which ensures that the counterparties are generally rated highly.

3.6 This is also at a time when it is increasingly difficult to find suitable counterparties and would therefore be unworkable and leave the Council with few banks on its approved lending list and create a new risk around large proportions of our investments being held in even fewer banks. To mitigate this risk, the Council can place unlimited funds with the Government Debt Management Office (DMO).

3.7 Credit ratings will be monitored whenever an investment is to be made, using the most recent information. 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 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 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 Councils lending list. However, investments already with the counterparty are likely to remain invested as it would be very expensive and potentially impossible to have the funds returned prematurely. However, the Chief Finance Officer will review the risk and penalties involved in order to determine whether an investment should be returned.

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

3.9 The Council has received updates from Capita on future changes to Money Market Fund that might affect the liquidity of the fund. The change is forecast to take place in 2015. The Council is likely to reduce the use of MMF should funds liquidity be adversely affected.

4 Country limits

4.1 The Council has determined that it will only use approved counterparties from selected countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix A attachment 4. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

5 Current Investments

5.1 At the end of December 2013 the Council had £23.01Million deposit with the institutions.

6 Policy on Borrowing in Advance of Need

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

6.2 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

7 End of year investment report

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

8 Policy on the use of external service providers

8.1 In July 2012, the Council went out to tender for its treasury management advisors. As a result of which, Capita (Formerly Sector) Treasury Services was reappointed on a three year contract with an option to extend by one year. The new contract commenced on 26 October 2012.

8.2 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.

8.3 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.

9 Scheme of delegation and role of s151 officer

Please see Appendix A attachment 5