APPENDIX B

TREASURY MANAGEMENT POLICY STATEMENT

Kettering Borough Council's Treasury Management Policy is embraced by the following three principles;

1. This Authority defines its treasury management activities as*: "The management of the 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".*

2. This Authority 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 Authority.

3. This Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of *"achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."*

TREASURY MANAGEMENT STRATEGY 2014/15

Introduction

1 Background

1.1 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 The Council's treasury management function primarily ensures that the organisations cash flow is properly managed and that cash is available when it is needed. Surplus monies are invested in low risk counterparties or instruments.

1.3 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 future borrowing needs of the Council. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

Reporting Requirements

1.4 The following reports are made during the year;

a. Before the start of the financial year - Treasury Management Policy and Strategy (Executive) / Prudential and Treasury Indicators (Council)

b. During the year – any updates that are required will be reported through the Durable Budget Reports (incl. a mid year position report)

c. At the end of the year – the actual prudential indicators will be reported as part of the Councils out-turn reports.

2 Treasury Management Strategy for 2014/15

2.1 The strategy for 2014/15 covers two main areas (in line with the requirements of recommended best practice);

Capital:

- Section A The Capital Plans and Prudential Indicators 2014/15 – 2018/19;
- Section B Minimum Revenue Provision Strategy and Policy Statement 2014/15;
- Section C Affordability Prudential Indicators;

Treasury Management:

- Section D Current Treasury Position;
- Section E Treasury Indicators 2014/15 – 2018/19;
- Section F Prospects for Interest Rates;
- Section G Borrowing Strategy;
- Section H Policy on Borrowing in Advance of Need;
- Section I Investment Policy;
- Section J Creditworthiness Policy;
- Section K Investment Strategy;
- Section L Policy on use of External Service Providers;

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

CAPITAL

Section A - The Capital Plans and Prudential Indicators 2014/15 – 2018/19

2.3 *Capital Expenditure* - this Prudential Indicator is a summary of the Council's capital expenditure plans (as currently contained in the Councils draft budgets);

TABLE 1	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Capital Expenditure	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Private Sector Housing Improvement	407	748	215	215	215	215	215
Invest and Repair Programme	710	868	416	136	136	136	136
Community Project Schemes	416	1,210	130	97	97	32	32
IT Investment Programme	255	272	320	220	220	220	220
Invest to Save Projects	120	3,228	809	279	279	279	279
HRA	2,227	3,334	3,624	2,928	2,928	2,928	2,928
Total Capital Programme	**4,135**	**9,660**	**5,514**	**3,875**	**3,875**	**3,810**	**3,810**
Leases	-	7,500	-	-	-	-	-
Total Capital Expenditure	**4,135**	**17,160**	**5,514**	**3,875**	**3,875**	**3,810**	**3,810**

TABLE 2	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Capital Expenditure / Financing	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non - HRA	1.908	13,826	1,890	947	947	882	882
HRA	2,227	3,334	3,624	2,928	2,928	2,928	2,928
Total Capital Programme	**4,135**	**9,660**	**5,514**	**3,875**	**3,875**	**3,810**	**3,810**
Leases	-	7,500	-	-	-	-	-
Total Capital Expenditure	**4,135**	**17,160**	**5,514**	**3,875**	**3,875**	**3,810**	**3,810**
Financed By							
Capital Grants	2,763	4,071	3,424	3,208	3,208	3,143	3,143
Capital Receipts	126	181	191	100	100	100	100
Revenue Contribution	1,246	456	40	40	40	40	40
Net financing need for the year	0	12,452*	1,859	527	527	527	527

**The increase in the CFR in 2013/14 is a result of the introduction of leases for the Councils vehicle fleet. The leases are funded through revenue and shown in Table 4, MRP and Other Financing Movements but are required under accounting requirements to be shown as capital expenditure.*

2.4 *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.

TABLE 3	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Capital Financing Requirement As at 31 March	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non-HRA	11,345	22,148*	22,242	21,366	20,432	19,488	18,534
HRA	76,722	74,072	71,461	67,961	64,461	61,461	58,461
TOTAL	88,067	96,220	93,703	89,327	84,893	80,949	76.995
Movement In CFR	(1,232)	8,153	(2,517)	(4,376)	(4,434)	(3,944)	(3,954)

TABLE 4	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Movement in CFR represented by	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net financing need for the year	-	12,452*	1,859	527	527	527	527
Less MRP and other financing movements	1,232	4,299	4,376	4,903	4,961	4,471	4,481
Movement In CFR	(1,232)	8,153	(2,517)	(4,376)	(4,434)	(3,944)	(3,954)

**The increase in the CFR in 2013/14 is a result of the introduction of leases for the Councils vehicle fleet. The leases are funded through revenue and shown in MRP and Other Financing Movements but are required under accounting requirements to be shown as capital expenditure.*

Section B - Minimum Revenue Provision Strategy and Policy Statement 2014/15

2.5 The Council is required to pay off an element of the accumulated General Fund 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).

2.6 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year – the following strategy is a continuation of the successful strategy used in 2013/14:

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). This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including 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). This option provides for a reduction in the borrowing need over approximately the asset's life.

2.7 No revenue charge is currently required for the HRA, although this Authority has opted to charge the HRA on an annual basis and make provision for the repayment of its debt liability. However the depreciation charged on HRA assets will have a revenue impact, until 2017/18 there are transitional arrangements in place where if depreciation is greater than the capital expenditure an adjustment for the difference can be made. From 2017/18 the capital programme must be equal or greater than the amount of depreciation charged.

2.8 Repayments included in annual finance leases are applied as MRP.

2.9 *The Use of the Council's Resources and the Investment Position* - 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 ongoing impact. Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

TABLE 5	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Year End Resources	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund balances	1,973	2,089	2,089	2,089	2,089	2,089	2,089
Reserves	11,885	12,527	12,527	12,027	11,527	11,527	11,527
Capital receipts	761	761	761	696	631	562	562
Total core funds	14,619	15,377	15,377	14,812	14,247	14,178	14,178
Working capital	(1,067)	(1,067)	(1,067)	(1,067)	(1,067)	(1,067)	(1,067)
Expected investments	13,552	14,310	14,310	13,745	13,180	13,111	13,111

Section C - Affordability Prudential Indicators

2.10 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.

2.11 *Actual and estimates of the 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.

TABLE 6	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ratio of financing cost to net Revenue stream	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
Non-HRA	-0.06%	5.71%	9.30%	11.25%	12.85%	13.58%	14.21%
HRA	14.03%	13.02%	12.25%	11.28%	10.23%	9.26%	8.42%

2.12 *Estimates of the incremental impact of capital investment decisions on council tax* - this indicator identifies the revenue costs associated with proposed changes to the five year capital programme recommended in the 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 five year period.

TABLE 7	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Incremental impact of capital Investment decisions	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£	**£**	**£**	**£**	**£**	**£**	**£**
Council Tax Band D (Indicative figure – per year)	n/a	4.95	1.84	0.80	0.84	0.85	n/a

2.13 *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 the budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

TABLE 8	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Incremental impact of capital Investment decisions	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£	**£**	**£**	**£**	**£**	**£**	**£**
Average Weekly Housing Rents	n/a	0.05	0.05	-	-	-	n/a

2.14 The above indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

2.15 The table below shows the ratio of HRA debt to HRA revenues. HRA revenues are based on the HRA Business Plan.

TABLE 9	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ratio of HRA Debt to HRA Revenues	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
HRA debt	77	74	71	68	64	61	58
HRA revenues	14	15	15	16	17	17	17
Ratio of debt to revenues %	533%	494%	476%	425%	379%	362%	344%

2.16 The table below shows the ratio of HRA debt to the number of HRA dwellings. The number of HRA dwellings in 2013/14 is based on the latest projections for the year while from 2014/15 onwards it is based on the HRA Business Plan which was drawn up at the time the debt was raised.

TABLE 10	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ratio of HRA Debt to	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
HRA debt	77	74	71	68	64	61	58
Number of HRA dwellings	3,784	3,750	3,741	3,731	3,721	3,711	3,701
Debt per dwelling	0.02	0.02	0.02	0.02	0.02	0.02	0.01

TREASURY MANAGEMENT

2.17 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.

Section D - Current Treasury Position

2.18 The net financing need for the year illustrates that based upon the latest estimates for 2013/14 borrowing of £4,952,000 will be required to finance the programme. This is in accordance with the Council's guiding principles. <u>Although in the past the Council has not had to borrow from external sources for this funding, it has in effect borrowed the money 'from itself' from other cash holdings that the Council has. This internal borrowing over the past many years means that the council does not hold 'cash backed' reserves. The Council currently has long term HRA debt which was required to enact the self financing transaction. The Council technically stopped being debt free some time ago due to its use of its own earmarked cash reserves.</u> Any borrowing will be in line with prudential indicators and the borrowing strategy outlined in Section G.

2.19 The Council's treasury portfolio position at the end of January 2014 comprised:

TABLE 11	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	actual	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
External Debt							
Debt at 1 April	79,968	71,933	71,903	68,903	66,403	62,903	59,903
Expected change in Debt	(8,035)	(30)	(3,000)	(2,500)	(3,500)	(3,000)	(3,000)
Other long term liabilities (OLTL)	1,119	7,548	6,421	4,975	3,602	2,297	1,058
Expected change in other OLTL	0	(56)	(375)	(302)	(234)	(168)	(106)
Actual debt at 31 March	73,052	79,395	74,949	71,076	66,271	62,032	57,855
The Capital Financing Requirement	88,067	96,220	93,703	89,327	84,893	80,949	76,995
Under / (over) borrowing	15,015	16,825	18,754	18,251	18,622	18,917	19,140
Total Investments at 31 March							
External Investments	2,411	1,661	761	1,611	1,711	2,061	2,411
Net Debt	70,641	77,734	74,188	69,465	64,560	59,971	55,444

2.20 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 gross debt does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following four financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. 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 the Council's budget reports that are currently under consideration.

Section E - Treasury Indicators for 2014/15 to 2018/19

2.21 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003.

2.22 The following indicators are relevant for the purposes of setting an integrated Treasury Management Strategy. These are technical calculations, which are required to be set to comply with statute. The figures fall out of the Council's budget for 2014/15 and are created by applying a number of statutory calculations.

2.23 *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.

TABLE 12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Operational Boundary for external Debt	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	93,000	101,000	99,000	94,000	90,000	87,000	83,000
TOTAL	93,000	101,000	99,000	94,000	90,000	87,000	83,000

2.24 *The Authorised Limit for external debt* - a further key prudential indicator represents a control on the maximum level of debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.

TABLE 13	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Authorised limit for external Debt	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	98,000	106,000	104,000	99,000	95,000	92,000	88,000
TOTAL	98,000	106,000	104,000	99,000	95,000	92,000	88,000

2.25 HRA Debt Limit - Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This is in accordance with the settlement and was prescribed as part of the self financing determination.

TABLE 14	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
HRA Debt Limit	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
HRA Debt Cap	79.146	79.146	79.146	79.146	79.146	79.146	79.146
HRA CFR	76.722	74.072	71.461	67.961	64.461	61.461	58.461
HRA Headroom	2.424	5.074	7.685	11.185	14.685	17.685	20.685

Section F - Prospects for Interest Rates

2.26 The Council has appointed Capita Asset Services (formerly Sector) as the treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates.

Capita Bank Rate forecast for financial year ends (March)

- 2013 / 2014 0.50%
- 2014 / 2015 0.50%
- 2015 / 2016 0.50%
- 2016 / 2017 1.25%

2.27 There is downside risk to these forecasts 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.

Section G - Borrowing Strategy

2.28 *Borrowing rates* - The Capita forecast for the Public Works Loan Board (PWLB) new borrowing rate is as follows: -

(Capita Interest rate forecast – 31st January 2014)

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Mar-16	Mar-17
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	1.25%
5yr PWLB Rate	2.50%	2.60%	2.70%	2.70%	2.80%	3.10%	3.40%
10yr PWLB Rate	3.60%	3.70%	3.80%	3.80%	3.90%	4.20%	4.50%
25yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.60%	5.00%	5.10%
50yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.70%	5.10%	5.20%

2.29 <u>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 short term measure.</u> This strategy is prudent as investment returns are low and counterparty risk is high.

2.30 Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. Interest rates will be closely monitored and a pragmatic approach will be adopted to any changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be reconsidered, and potential rescheduling from fixed rate funding into short term borrowing will be looked at.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

2.31 *Treasury Management Limits on Activity* - there are 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 to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

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

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

- 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.

TABLE 15	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Interest Rate Exposures	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Upper limits on fixed interest rates based on net debt	n/a	100%	100%	100%	100%	100%	100%
Upper limit for variable rates based on net debt	n/a	40%	40%	40%	40%	40%	40%

Maturity structure of fixed rate borrowing	**Lower Limit**	**Upper Limit**
under 12 Months	0%	100%
between 12 months and 24 months	0%	100%
Between 24 months and 5 years	0%	100%
More than 10 years	0%	100%

Note: All indicators have been reviewed by our external treasury advisors Capita.

Section H - Policy on Borrowing in Advance of Need

2.32 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.

2.33 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.

Section I - Investment Policy

2.34 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in the Public Services Code of Practice and Cross Sector Guidance Notes. The Council's overall investment priorities are:

- Security; the creditworthiness of the counterparty and;
- Liquidity; how readily available cash is; the term of the investment.

2.35 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority of security of its investments.

2.36 In accordance with guidance from 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 the ratings reflect in the eyes of each agengy. 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.

2.37 The Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally 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 and monitor on market pricing such as “Credit Default Swaps” (CDS) and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

2.38 Other information sources used will include the financial press, 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.

2.39 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.The intention of the strategy is to provide security of investment and minimisation of risk.

Section J - Creditworthiness policy

2.40 This Council uses the creditworthiness service provided by Capita Asset Services. This service employs sophisticated modelling utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings are supplemented with the following overlays: -

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

2.41 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. The Council will therefore use counterparties within the following durational bands.

- Yellow 5 years
- Dark Pink 5years for Enhanced money market funds(EMMF) with a credit score of 1.25
- Light Pink 5 years for EMMF with a credit score of 1.5
- Purple 2 years

- Blue — 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange — 1 year
- Red — 6 months
- Green — 100 days
- No Colour — not to be used

2.42 The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system minimises exposure to just one agency's ratings.

2.43 All credit ratings will be monitored daily. 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, 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 CDS against the iTraxx benchmark (A set of CDS indices) 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.

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

2.45 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):

TABLE 16	**Minimum credit criteria / colour band**	**Max % of total investments**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	AAA	100%	5 years
UK Government Treasury blls	AAA	100%	5 years
Bonds issued by multilateral development banks	AAA	100%	6 months
Money market funds	AAA	100%	Liquid
Local authorities	N/A	100%	5 years
Term deposits with banks and building societies	Yellow Dark Pink Light Pink Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 5 years (EMMF 1.25) Up to 5 years (EMMF 1.5) Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use
Gilt funds	AAA	100%	

Section K - Investment Strategy

2.46 The Council's funds are mainly cash-flow derived. The Council will seek to utilise its notice and call accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest. 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).

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

- 2014 / 2015 0.50%
- 2015 / 2016 0.50%
- 2016 / 2017 0.05%
- 2017 / 2018 1.25%

2.48 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.

TABLE 17	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Principal sums invested for over 364 days	5,000	5,000	10,000	10,000	10,000	10,000	10,000

Section L - Policy on the use of External Service Providers

2.49 The Council continues to use Capita Asset Services (formerly Sector Treasury Services) as its external treasury management advisers for 2014/15.

2.50 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.

2.51 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.