Treasury Management Strategy Report 2016/17

INTRODUCTION

Background

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

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

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."*

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 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.

Governance and Audit – As part of the committees terms of reference the above reports are presented to them for consideration and scrutinity during the year. The Committee also have delegated authority to approve in year ammendments to the Treasury Management Strategy. The committee have also considered and support the invesment strategy for 2016/17.

Treasury Management Strategy for 2016/17

The strategy for 2016/17 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.

Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training has been undertaken by members of Governance and Audit and further training will be arranged as required. Capita Asset Services provided a member training session on 3rd December 2015.

The training needs of treasury management officers are periodically reviewed.

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.

SECTION 1 - THE PRUDENTIAL INDICATORS 2016/17 to 2018/19

Introduction

1. 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 Capital Expenditure Plans

2. 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:

	2015/16 Outturn £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
Capital Expenditure				
Non-HRA	3.790m	11.418m	2.480m	1.748m
HRA	6.171m	9.257m	7.183m	5.823m
Total	**9.961m**	**20.675m**	**9.663m**	**7.571m**

3. Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.
4. 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.

	2015/16 Outturn £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
Capital Expenditure				
Non-HRA	3.790m	11.418m	2.480m	1.748m
HRA	6.171m	9.257m	7.183m	5.823m
Financed by:				
Capital receipts reserve	3.661m	2.749m	1.761m	1.078m
Capital grants	0.393m	0.376m	0.000m	0.000m
Capital reserves	5.424m	10.329m	6.441m	5.081m
Revenue	0.483m	7.221m	1.461m	1.412m
Net financing need for the year	0	0	0	0

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

5. 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 Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.
6. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statuatory annual revenue charge which broadly reduces the borrowing need in line with each asset life.
7. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst this 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 currently has no such schemes within the CFR

8. The Council is asked to approve the CFR projections below:

	2015/16 Revised £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
Capital Financing Requirement				
Closing CFR – Non Housing	3.975m	3.816m	3.663m	3.517m
Closing CFR - Housing	112.514m	109.292m	106.070m	102.848m
Opening CFR	119.876m	116.489m	113.108m	109.733m
Movement in CFR	(3.387m)	(3.381m)	(3.375m)	(3.368m)

	2015/16 Revised £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
Movement in CFR represented by				
Net Financing need for the year (above)	0.00m	0.000m	0.000m	0.000m
Less MRP/VRP and other financing movements	(0.166m)	(0.159m)	(0.153m)	(0.147m)
Movement in CFR	(0.166m)	(0.159m)	(0.153m)	(0.147m)

Minimum revenue provision (MRP) policy statement

9. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary revenue payments (VRP) if required.

10. CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement**.**

11. 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.

12. From 1 April 2008 for all new unsupported borrowing 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 Directive).

    There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

13. For authorities who participate in LAMS using the cash backed option, the mortgage lenders require a five year cash advance from the local authority to match the five year life of the indemnity. The cash advance placed with the mortgage lender provides an integral part of the mortgage lending, and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position should be reviewed on an annual basis.

Core Funds and Expected Investment Balances

14. 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 on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2015/16 Revised £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
Fund balances	17.742m	16.023m	19.623m	22.405m
Capital reserves – General Fund	4.566m	1.637m	1.670m	2.363m
Capital reserves – HRA	12.144m	13.471m	14.660m	15.601m
HRA reserve	1.207m	1.050m	0.881m	0.701m
Major Repairs Reserve	6.266m	5.232m	5.312m	6.763m
Total Core Funds	**41.925m**	**37.413m**	**42.146m**	**47.833m**
Working Capital - GF*	1.663m	1.663m	1.663m	1.663m
Working Capital - HRA*	3.800m	2.532m	2.510m	2.506m
Expected Investments	**47.388m**	**41.608m**	**46.319m**	**52.002m**

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

Affordability Prudential Indicators

15. 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:

16. **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.

%	2015/16 Revised	2016/17 Estimated	2017/18 Estimated	2018/19 Estimated
Non-HRA	(1.14%)	(1.39%)	(1.07%)	(1.33%)
HRA	19.92%	18.68%	18.19%	16.84%

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

The Prudential Code 2013 acknowledges that the "Financing costs to Net Revenue Stream" indicator may be more problematic for some authorities regarding the level of government support for capital spends.

18. **Incremental impact of capital investment decisions on the 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.

19. **Incremental impact of capital investment decisions on the Band D Council Tax**

	2015/16 Revised	2016/17 Estimated	2017/18 Estimated	2018/19 Estimated
Variance change in original to revised spending programme	(£3.10)	£6.47	£1.10	£0.52

20. **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.

21. **Incremental impact of capital investment decisions Housing Rent levels**

	2015/16 Revised	2016/17 Estimated	2017/18 Estimated	2018/19 Estimated
Variance change in original to revised spending programme	(£195.38)	£355.28	(£71.36)	£343.94

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

The Prudential Code 2013 has clarified that this indicator should relate to the identification and isolation of those decisions members make to the existing capital programme. For instance, the withdrawal of a scheme should be reflected as it may lead to reduced costs and a lower impact on the Council Tax or HRA rents.

SECTION 2 - Borrowing

Debt and Investment Projections

23. The capital expenditure plans set out in Section 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

24. The Councils treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting any over or under borrowing.

	2015/16 Revised £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
External Debt				
Existing Debt at 1 April	(113.487m)	(109.765m)	(106.543m)	(102.322m)
Expected change in debt	0.500m	0.000m	1.000m	0.000m
HRA Settlement	3.222m	3.222m	3.222m	3.222m
Debt at 31 March	**(109.765m)**	**(106.543m)**	**(102.321m)**	**(99.100m)**
CFR	116.489m	113.108m	109.733m	106.365m
Under / (over) borrowing	6.724m	6.565m	7.412m	7.265m
Total Investments at 31 March				
Investment change	**47.388m**	**41.608m**	**46.319m**	**52.002m**
Net Debt	**(62.377m)**	**(64.935m)**	**(56.002m)**	**(47.098m)**

25. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total 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 2016/17 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

26. The Corporate Finance Manager 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

Limits to Borrowing Activity

27. **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	2015/16 Revised £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
Debt	1.500m	1.000m	1.000m	0.000m
+ HRA Reform	111.987m	108.765m	105.543m	102.322m
Other long term liabilities	0.000m	0.000m	0.000m	0.000m
Total	**113.487m**	**109.765m**	**106.543m**	**102.322m**

28. **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 no control has yet been exercised.
- The Council is asked to approve the following authorised limit:

Authorised limit	2015/16 Revised £	2016/17 Estimated £	2017/18 Estimated £	2018/19 Estimated £
Debt	18.000m	18.000m	18.000m	18.000m
+ HRA Reform	111.987m	108.765m	105.543m	102.322m
Other long term liabilities	0.000m	0.000m	0.000m	0.000m
Total	**129.987m**	**126.765m**	**123.543m**	**120.322m**

Prospects for Interest Rates

29. The Council has appointed Capita Asset Services, Treasury Solutions as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 1 draws together a number of current City forecasts for Short Term (Bank Rate) and Longer fixed interest rates. The following table gives the current sector central view:

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2016	0.50	2.40	3.70	3.60
Jun 2016	0.75	2.60	3.80	3.70
Sep 2016	0.75	2.70	3.90	3.80
Dec 2016	1.00	2.80	4.00	3.90
Mar 2017	1.00	2.80	4.10	4.00
Jun 2017	1.25	2.90	4.10	4.00
Sep 2017	1.50	3.00	4.20	4.10
Dec 2017	1.50	3.20	4.30	4.20
Mar 2018	1.75	3.30	4.30	4.20
Jun 2018	1.75	3.40	4.40	4.30
Sep 2018	2.00	3.50	4.40	4.30
Dec 2018	2.00	3.50	4.40	4.30

Borrowing Strategy 2016/17 – 2017/18

30. 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 high.

31. Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Corporate Finance Manager will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

32. The uncertainty over future interest rate increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

33. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

Treasury Management Limits on Activity

34. There are three debt related treasury activity limits. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an 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 – Similar to the previous indicator this 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.

35. The Council is asked to approve the limits**:**

	2015/16	2016/17	2017/18	2018/19
Interest rate Exposures				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	£125.000m	£125.000m	£125.000m	£125.000m
Limits on variable interest rates based on net debt	£40.000m	£40.000m	£40.000m	£40.000m
Maturity Structure of fixed interest rate borrowing 2016/17				
		Lower	Upper	Upper
Under 12 months		0%	40%	0%
12 months to 2 years		0%	40%	40%
2 years to 5 years		0%	100%	100%
5 years to 10 years		0%	100%	100%
10 years and above		0%	100%	100%

Policy on Borrowing in Advance of need

36. 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.

37. The Corporate Finance Manager may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Corporate Finance Manager will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.
38. It would not look to borrow more than 24 months in advance of need.
39. 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.

Debt Rescheduling

40. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
41. The reasons for any rescheduling to take place will include:
    - the generation of cash savings and / or discounted cash flow savings;
    - helping to fulfil the treasury strategy;
    - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

42. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

Municipal Bonds Agency

43. It is likely that the Municipal Bonds 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 authority intends to make use of this new source of borrowing as and when appropriate.

SECTION 3 - ANNUAL INVESTMENT STRATEGY

Investment Policy and Counterparty Selection Criteria

44. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 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.

45. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

46. Ratings will not be the sole determinant of the quality of an institution; 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 envirnoments 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.

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

48. Investment instruments identified for use in the financial year are listed in Annex 3 under the 'specified' and 'non-specified' investment categories. Counterparty limits will be as set through the Council's treasury management practices-schedules.

Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. 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.

49. 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 *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) 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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

50. The Capita Asset Services 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.

51. 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-. There may be occasions when the counterparty ratings from one 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.

52. All credit ratings are monitored daily and 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 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.

53. 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 any external support for banks to help support its decision making process.

54. The Treasury Management Officer will use the Capita Credit Rating weekly listing as a tool for guidance, with the option to deviate from this guidance only when there are clear alternative options that are available to the Council. Any decision of this nature should be clearly documented for audit purposes.

Local Authority Mortgage Scheme

55. The Local Authority Mortgage Scheme (LAMS) – The Council is currently particpating in the cash backed mortgage scheme which requires the Council to place a matching five year deposit to the life of the indemnity. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified/non specified investment categories

Investment Strategy

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

57. **Investment returns expectations**. Bank Rate is forecast to remain unchanged at 0.5% before startting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

    - 2016/17 1.00%
    - 2017/18 1.75%
    - 2018/19 2.00%

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

    - 2016/17 0.90%
    - 2017/18 1.50%
    - 2018/19 2.00%
    - 2019/20 2.25%
    - 2020/21 2.50%
    - 2021/22 3.00%
    - 2022/23 3.00%
    - Later years 3.00%

59. The overall balance of risks to these forecasts is currently to the downside (i.e. start if increases in Bank Rate occurs later). However, should the pace of growth quicken and/or forecasts for increases in inflation rise, there could be an upside risk.

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

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

Maximum principal sums invested > 364 days			
	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£12.000m	£13.000m	£15.000m

62. **Investment Risk Benchmarking –** A development in the revised Codes and the CLG Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature.

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

64. **Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:
    - 0.049% historic risk of default when compared to the whole portfolio.

65. **Liquidity** – In respect of this area the Council seeks to maintain:
    - Bank overdraft - £0.25m
    - Liquid short term deposits of at least £5m available with a week's notice.
    - Weighted Average Life benchmark is expected to not exceed a maximum of 1 year.

66. **Yield - Local measures of yield benchmarks are :**
    - Investments – Internal returns above the 7 day LIBID rate
    - Investments – External fund managers - returns 10% above 7 day compounded LIBID.

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

	1 year	2 years	3 years	4 years	5 years
Maximum	0.04%	0.09%	0.17%	0.25%	0.34%

Note: This benchmark is an average risk of default measure (potential loss on investments), and would not constitute an actual expectation of loss against a particular investment.

End of year Investment Report

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

Policy on Use of External Service Providers

69. The Council uses Capita Asset Services as its external treasury management advisors.

70. 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.

71. 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.

Annex 1 - Interest Rate Forecast 2014/2018

Capita Asset Services Interest Rate View	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
3 Month LIBID	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%
6 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%	2.20%	2.20%	2.30%
12 Month LIBID	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%	2.50%	2.50%	2.70%
5yr PWLB Rate	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB Rate	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB Rate	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Bank Rate													
Capita Asset Services	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
Capital Economics	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

Annex 2 – Economic Background

Global economy

Eurozone (EZ). The ECB unleashed a programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this more recent lacklustre progress, combined with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2%. The ECB will also aim to help boost the rate of growth in the EZ.

The US economy

GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.1% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong; this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

China.

The Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

Japan

Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

Greece

During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain.

The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

UK economy

UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

Forward guidance.

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Annex 3

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

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

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 June 2004 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Finance Manager has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

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

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

The investment policy proposed for the Council is:

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

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

Table A – Specified Investments

	Specified Investments Category	Limit
a	**A body of high credit quality,** this category includes the following – □ Any bank or building society using Sector Creditworthiness service, following the suggested duration on the list up to a maximum of 364 days. □ Nationalised and Part nationalised banks can be included within specified investments as long as they remain part-nationalised	**£10m per institution** or a maximum of **30% of total investment** (whichever is the greatest), **£10m per corporate group**
b	**The UK Government** (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity)	no amount limit
c	**UK local authorities, Parish Council or Community Council**	**£5m per LA, £10m all LAs**
d	**Pooled investment vehicles** (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This category covers pooled investment vehicles, such as money market funds, rated *AAA* by Standard and Poor's, Moody's or Fitch rating agencies. CLG Investment Guidance specifies that Money Market Funds with high credit ratings are classified as Specified Investment. These funds are instant access investment. There is possibility that part of the investment may be exposed to counterparties the Council would not approve normally or invest directly. The counterparty risk is mitigated by that – • The Fund Managers diversify investment in a range of counterparties; • The Funds are instant access; • The Council only invests in funds rated AAA; • DCLG Investment Guidance classifying such funds as Specified Investment.	**£5m** per fund,
e	**Enhanced Money Market Funds** These are similar to normal money market funds but operate on a variable rate basis. The selection criteria will be on the same basis as the pooled investment vehicles with only funds rated *AAA* by Standard and Poor's, Moody's or Fitch rating agencies being used. In addition to this only EMMF's with a credit score of 1.25 and above will be used.	**£5m** per fund,
f	**Corporate Bond Funds**	**£5m** per fund

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Amounts invested with any one corporate group shall not exceed £5m (with the exception of Councils own bank).

Amounts invested in non specified fixed term investment would normally not exceed 35% of the total Invested**.** The Corporate Finance Manager has the discretion if required to exceed this and the limits detailed below should the rate of return on Investment be beneficial to the council. Any decision will be based on taking into account current and future market conditions as well as counterparty strength and rating. If these circumstances are required this will be reported back to the appropriate committee through the annual reporting cycle

The table below is not an exhaustive list of all non specified investments, further options are identified in the narrative section within the strategy.

Table B – Non Specified Investments

	Non Specified Investment Category	**Limit**
a.	**Any institutions meeting the criteria set out for Specified Investments,** with a maturity of greater than one year following the suggested duration on the list up to a maximum of 5 years. (including forward deals in excess of one year from inception to repayment).	**£4m** maximum of **3-years** per institution
b.	**Councils Bank –** Should its ratings fall below that required for specified investment, monies will be restricted to instant access.	**£7m**
c.	**Top 10 building societies, by asset value.**	**£2m** maximum of **3-years** per institution. **£10m for all top 10 building societies**
d.	**UK Local Authorities, Parish Council or Community Council**	**£5m per LA, £10m all LA's**
e.	**Property funds** The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	**£5m** per fund **No maximum duration period.**

Note: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

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

Local Authority Mortgage Scheme. Under this scheme the Council will place a maximum fund of £5m, with one of the approved lenders participating in the LAMS scheme for a fixed period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories.

Local Authority Controlled Company – LACC.
The Council has the ability to make loans to a Local Authority Controlled Company. The criteria for a Loan being made with a LACC will be that there is a clear business plan that demonstrates the affordability of the investment for the LACC.

Registered Social Landlords (RSL's)

- This scheme would lend amounts up to £5m per investment to Registered Social Landlords for the purpose of providing housing within the District.

- Repayment terms of up to 10 years would be offered.

- Can be deemed as a sevice investment as apposed to a Treasury Investment.

- Individual Housing Associations do not have credit ratings therefore it is proposed that we use our external treasury advisers to undertake due diligence checks to assess borrowers' ability to make good the repayment of the loan.

- Loans would be secured by means of a legal charge over the borrowers assets. Related legal costs and loan set up fees would be charged to the borrower.

- Interest rates charged would be set at PWLB/market rates available at the time the loan is agreed. This will provide an investment return and ensure that no gratuitous benefit is included which would have soft loan or state aid implications.

- For accounting purposes loans would be treated as capital expenditure and financed from internal borrowing. This will increase the Capital Financing Requirement (CFR) by the amount of the loan and then this will be written down upon repayment of the principal.

- This approach means that there is no requirement to make a Minimum Revenue Provision (MRP) contribution which would be a charge to the working balances, therefore avoiding any additional cost to the tax payer.

- Any activity of this type would only take place after detailed due diligence work be been undertaken.

Use of External Fund Managers –The Council currently uses external fund managers for part of its investment portfolio. The Council is not restricted to placing funds with cash managers, and will manage funds in house, use fund managers, or brokers if it is appropriate to do so.
The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. Currently the Council has an agreement with King & Shaxson, Tradition UK and Sterling International. The fund managers are required to adhere to the following:

- All investments restricted to sterling denominated instruments;
- Amounts invested with any one institution or Corporate Group should not exceed the limits specified in Table A and Table B.
- Portfolio management is measured against the return provided by the 3 month sterling LIBID, or in accordance with the measures specified in the contract.

The performance of investment managed by Fund Managers is reviewed at least quarterly by the Corporate Finance Manager.

Ethical Investment Statement - The council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the council

"The Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply council deposits in a socially responsible manner."

Counterparties shall be advised of the above statement.

Annex 4
Risk Management – The Council undertakes risk assessment for all fixed term deposits or greater than one month. The risk assessment uses the following template –

Risk assessment of new investment

Investment	**Institution**	**Risk Assessment**
Investment Product	Institution name	
Principal Value	Eligibility	
Term	Limit with this institution	
Rate	Existing investment value	
Rate %	Value inc new investment	
Internal Reference	Is it within the limit?	

Risk of the counterparty defaulting on investment

		Likelihood	
	Counterparty on our specified list: Instant access	1.4	
	Counterparty only on non specified list: Instant access	1.7	
	Counterparty on our specified list: <=364 days	2	Unlikely
	Counterparty on our specified list: <=3 months	1	Unlikely
	Counterparty only on non specified list: <=364 days	2.4	
	Counterparty only on non specified list: >364 days	3	Likely

	Impact of losing the investment	*Impact*	
	Total principal less than £700,000	1	Negligible
	Total principal between £700,000 and £1.4m	2	Minor
	Total principal between 1.4m and £3.5m	3	Major
	Total principal greater than £3.5m	4	Critical

Risk Score :

Risk assessed by:

Risk assessment date: