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AUDIT COMMITTEE

Item 6 – Treasury Policy Statement

Wednesday, 13th March, 2013

7.00 pm

Town Hall, Watford

Publication date: 11 March 2013

CONTACT
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COMMITTEE MEMBERSHIP

Councillor I Brown (Chair)
Councillor A Burtenshaw (Vice-Chair)
Councillors I Brandon, A Khan and P Taylor

AGENDA

PART A - OPEN TO THE PUBLIC

6. TREASURY POLICY STATEMENT (Pages 1 - 30)

This report informs Members of the Treasury Management Annual Report and Prudential Indicators for 2011/12; to present to Members a mid year review of the Treasury Management function in 2012/13; and to report the Treasury Management Strategy for 2013/14 – 2015/16.

Agenda Item 6

Report to: **Audit Committee**

Date of Meeting: **13 March 2013**

Report of: **Head of Strategic Finance**

Title: **Treasury Management Annual Review**

1.0 SUMMARY

1.1 To inform Members of the Treasury Management Annual Report and Prudential Indicators for 2011/12; to present to Members a mid year review of the Treasury Management function in 2012/13; and to report the Treasury Management Strategy for 2013/14 – 2015/16.

2.0 RECOMMENDATIONS

2.1 That the Committee notes the Treasury Management Annual Report 2011/12; the Mid Year Treasury Management Monitoring Report 2012/2013, the Treasury Management Strategy Statement 2013/14 – 2015/16 and the Treasury Management Practice guidance..

2.2 The Audit Committee is specifically recommended to approve Appendix 3, the Treasury Management Strategy Statement, and refer it to Council for approval.

3.0 SALIENT ISSUES

3.1 This report has a similar problem to the Statutory Statement of Accounts namely that it is largely incomprehensible to a lay person but regrettably has to be followed as it is a format devised by professional 'experts', the Chartered Institute of Public Finance and Accountancy (CIPFA) and has been expanded by the Council's Treasury adviser, Sector (and will be widely adopted by most local authorities).

3.2 This ''introduction'' attempts to draw out the key issues reflected within subsequent sections of this report.

3.3 **Appendix 1** formally reviews the Council's activities / performance during 2011/2012 and has been reported previously in regular reports to the Audit Committee. It confirms the Council did not incur any external debt, only invested with approved counterparties, and outperformed the investment return benchmark.

3.4 **Appendix 2** reports upon the half year treasury management activities / performance and has again been reported to Audit Committee (in a more concise form) at its meeting on 25 September 2012. It again reports no external debt, investments only with approved Counterparties; a forecast investment rate of return of 1.15% (original estimate 1.30%); and an expectation that £325k of cash will accrue on our investments (as per Original estimate).

3.5 **Appendix 3** is the most interesting part of the report and details the parameters for borrowing and investments within which officers are required to operate. In essence it recommends the ability to borrow up to a maximum of £10m and reflects anticipated borrowing of £6m from the Herts Local Enterprise Partnership Growing Places Fund and further potential funding for other re-development projects. In all cases there will be an expectation that a financial return will accrue to enable these loans to be repaid within a relatively short period of time. Appendix 3 also details the criteria for determining to whom the Council should be lending its money and has been reviewed in the light of the general credit rating downgrades that have occurred over the past twelve months.

3.6 **Appendix 4** reports upon the Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management guidance.

4.0 There is no section 4 to this report (late re-numbering !)

5.0 DETAILED EXPLANATION OF THE TREASURY MANAGEMENT REPORTS

5.1.1 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.”

5.1.2 The reports meet the requirements of CIPFA’s Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

5.2 Treasury Management Annual Report and Actual Prudential Indicators 2011/12 (Appendix 1)

5.2.1 This report provides details of actual prudential and treasury indicators and treasury operations during 2011/12 compared to the estimates within the strategy. The report is made in line with the Council’s approved policy on Treasury Management.

5.2.2 During 2011/12, the Council complied with its legislative and regulatory requirements and the Head of Strategic Finance confirms that the statutory borrowing limit (the authorised limit), was not breached.

5.2.3 The financial year 2011/12 continued the challenging environment of previous years; low investment returns and continuing counterparty risk.

5.2.4 The Head of Strategic Finance also confirms that no borrowing was undertaken. At 31 March 2012, the Council had no external debt and its investments totalled £29.112m (£31.874m at 31 March 2011).

5.2.5 This report contains:

- Capital activity during the year;
- Reporting of the required prudential and treasury indicators;
- Impact of this activity on the Council’s underlying indebtedness (the Capital Financing Requirement);
- Overall treasury position and the impact on investment balances;
- Summary of the economy and interest rates;
- Investment Rates in 2011/12;
- Investment Outturn for 2011/12.

5.3 Mid Year Treasury Management Monitoring Report (Appendix 2)

5.3.1 This report updates members upon the progress of the capital financing, amending prudential indicators as necessary, and whether the treasury strategy is being met or any policies require revision.

5.3.2 The underlying economic environment remains difficult for the Council, foremost being the concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy is that investment returns remain low.

5.3.3 The basis of the treasury management strategy, the investment strategy and the performance indicators are not changed.

5.3.4 The prudential code requires the Council to update:

- The Council's capital expenditure plans;
- How these plans are being financed.

These requirements are met by the Council's Budget Monitoring & Reporting Framework, which includes revised capital expenditure and funding statements within the Budget Book.

5.4 Treasury Management Strategy Statement 2013/14 – 2015/16 (Appendix 3)

5.4.1 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 medium risk appetite, providing adequate liquidity initially before considering investment returns.

5.4.2 This report covers two main areas:

Capital Issues
- The capital plans 2013/14 – 2015/16;
- The Minimum Revenue Provision strategy and policy statement.
- The long and short term borrowing requirement

Treasury Management Issues
- The current portfolio position;
- Treasury indicators: limits to borrowing activity;
- Prospects for interest rates;
- The borrowing strategy;
- Annual investment strategy;
- Reporting requirments;
- Policy on use of external service providers; and
- Member and officer training.

5.4.3 The Treasury Management Policy Statement, details the policies, practices, objectives and approaches to risk management of its treasury management activities and has previously been adopted by the Audit Committee. There are no changes to the Treasury Management Policy Statement to report and the treasury service confirm that they are complying with all aspects of the the Treasury Policy Statement and will continue to comply in future years.

5.4.4 It should be noted however that the criteria for placing investments have been reviewed to take into account general credit rating adjustments that have occurred over the past twelve months.

5.4.5 It is necessary for Council to agree the degree of risk to which it is prepared to expose the investment portfolio. The Head of Strategic Finance would define this as follows:

- Low Risk—limited to use of the Debt Management Office facility and other UK sovereign financial instruments; major clearing banks possessing high credit rating (or substantially owned by the UK Government); triple AAA money market funds; local authorities.

- Medium Risk—the use of Building Societies with an asset base above £5,000m as this sector is generally not rated by the Credit Rating Agencies;

- High Risk—low rated clearing banks; banks based outside the UK (this is a generalisation as many German / Dutch / Scandinavian and French banks would almost certainly be deemed too big to fail); building societies having a small asset base.

5.4.6 By the above 'crude' criteria, Watford might be considered to have a medium appetite for risk and the Audit Committee and Council will need to feel comfortable with this approach.

6.0. IMPLICATIONS

6.1 **Financial**

6.1.1 The Head of Strategic Finance comments that the Treasury Management Statements have no direct financial implications although Appendix 3 does, in particular, set parameters within which officers should operate and could result in indirect financial implications which are not possible to evaluate at this time.

6.2 Legal Issues (Monitoring Officer)

6.2.1 The Head of Legal and Property Services comments that it is a statutory requirement that the Treasury Management Strategy and Treasury Management Practices are reviewed annually.

6.3 Potential Risks

Potential Risk	Likelihood	Impact	Overall Score
That the Council will exceed its borrowing parameters	1	3	3
That the Council will be unable to service its annual borrowing costs	1	3	3
That the Council will be unable to repay any loans at maturity date	1	4	4
Investment placed with a non approved body	1	3	3
Investment with a counterparty that subsequently defaults	1	4	4

Background papers:
UK Economic Forecasts provided by Sector, the Council's treasury advisors;
CIPFA Prudential Code for Capital Finance in Local Authorities, 2011 Edition;
CIPFA Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes, 2011 Edition;
CIPFA Treasury Management in the Public Services, Guidance Notes for Local Authorities, 2011 Edition;
Outturn figures from E Financials, Logotech Treasury Management and Statement of Accounts.

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APPENDIX 1

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE 2011/12 (INCORPORATING OUTTURN PRUDENTIAL INDICATORS)

1. The Council's Capital Activity During 2011/12

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need;
- The Council did not borrow during 2011/12.

2. Reporting of the Required Prudential and Treasury Indicators

- During 2011/12, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual Prudential and Treasury Indicators	2010/11 Actual	2011/12 Actual
Actual capital expenditure	£10.311m	£10.066m
Total Capital Financing Requirement:	£3.340m	£2.974m
Net borrowing	-£31.874m	-£29.112m
External debt	£0.000m	£0.000m
Investments - under 1 year	£31.874m	£29.112m

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Actual Capital Expenditure and Financing	2010/11 Actual £000	2011/12 Estimate £000	2011/12 Actual £000
Capital expenditure	10.311	9.967	10.066
Total Capital Expenditure			
Resourced by:			
• Capital receipts	8.747	8.285	8.384
• Capital grants and other contributions	1,564	1,632	1,682
• Other contributions and MRP	0.044	0.050	0.366
Overfinanced Capital Expenditure	**-0.044**	**0.000**	**-0.366**

3. Impact of This Activity on the Council's Underlying Indebtedness (the Capital Financing Requirement)

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. The Council's CFR for the year was zero.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

The Authorised Limit - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

The Operational Boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual Financing Costs as a Proportion of 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.

Gross Borrowing Within Authorised Limit	2010/11 Actual	2011/12 Actual
Authorised limit	£7m	£7m
Maximum gross borrowing position	£5m	£5m
Operational boundary	£5m	£5m
Average gross borrowing position	Nil	Nil
Financing costs(+) / income (-) as a proportion of net revenue stream	-4.34%	-1.82%

4. Overall Treasury Position and the Impact on Investment Balances

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2011/12 the Council's treasury position was as follows:

Treasury Position	31 March 2011 Principal	Rate / Return	31 March 2012 Principal	Rate / Return
Total debt	Nil		Nil	
CFR	Nil		Nil	
Investments - in house	£31.874m	1.24%	£29.112m	1.22%
Total investments	***£31.874m***	***1.24 %***	***£29.112m***	***1.22%***

The maturity structure of the investment portfolio was all under one year.

The exposure to fixed and variable rates was as follows:

Exposure to Fixed and Variable Rates	31 March 2011 Actual	31 March 2012 Actual
Fixed rate (principal)	£24.000m	£18.970m
Variable rate (principal)	£7.874m	£10.142m

5. The Economy and Interest Rates (Overall synopsis provided by the Council's Treasury Advisers (Sector)

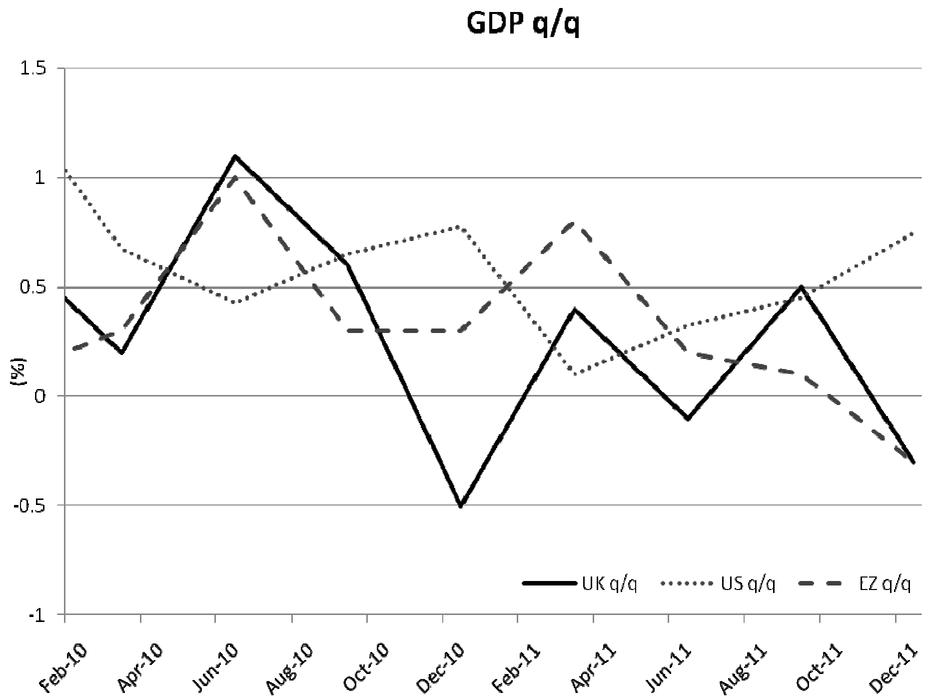
Sovereign Debt Crisis - 2011/12 was the year when financial markets were apprehensive, fearful of the potential of another Lehman's type financial crisis, prompted by a precipitous Greek Government debt default. At almost the last hour, the European Central Bank (ECB) calmed market concerns of a liquidity crisis among European Union (EU) banks by making available two huge three year credit lines, totalling close to €1 trillion at 1%. This also provided a major incentive for those same banks to then use this new liquidity to buy EU sovereign debt yielding considerably more than 1%.

A secondary benefit of this initiative was the bringing down of sovereign debt yields, for the likes of Italy and Spain, below unsustainable levels. The final aspects in the calming of the EU sovereign debt crisis were two eleventh hour agreements: one by the Greek Government of another major austerity package and the second, by private creditors, of a "haircut" (discount) on the value of Greek debt that they held, resulting in a major reduction in the total outstanding level of Greek debt. These agreements were a prerequisite for a second EU / IMF bailout package for Greece which was signed off in March.

Despite this second bailout, major concerns remain that these measures were merely a postponement of the debt crisis, rather than a solution, as they did not address the problem of low growth and loss of competitiveness in not only Greece, but also in other EU countries with major debt imbalances. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

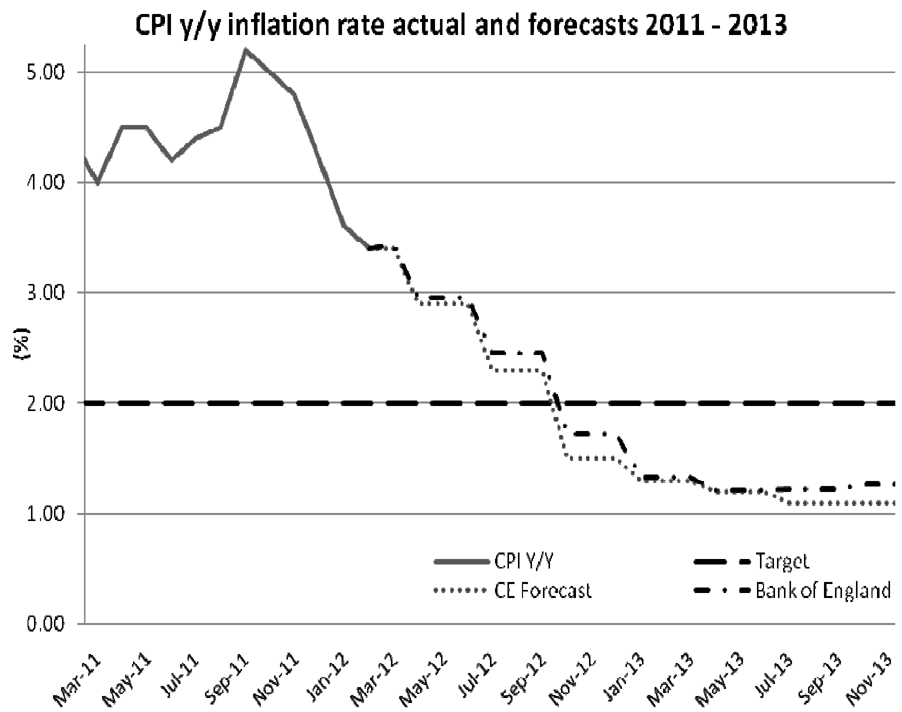
The UK Coalition Government - maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.

UK Growth - proved mixed over the year. In quarter 2, GDP growth was zero, but then quarter 3 surprised with a return to robust growth of 0.6% q/q before moving back into negative territory (-0.3%) in quarter 4. The year finished with prospects for the UK economy being decidedly downbeat due to a return to negative growth in the EU in quarter 4, our largest trading partner, and a sharp increase in world oil prices caused by Middle East concerns. However, there was also a return of some economic optimism for growth outside the EU and dovish comments from the major western central banks: the Fed in America may even be considering a third dose of quantitative easing to boost growth.



UK CPI Inflation - started the year at 4.5% and peaked at 5.2% in September. The fall out of the January 2011 VAT increase from the annual CPI figure in January 2012 helped to bring inflation down to 3.6%, finishing at 3.5% in March.

The Monetary Policy Committee agreed an increase in quantitative easing (QE) of £75bn in October on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. The MPC then agreed another round of £50bn of QE in February 2012 to counter the negative impact of the EU debt and growth crisis on the UK.



Gilt Yields - fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

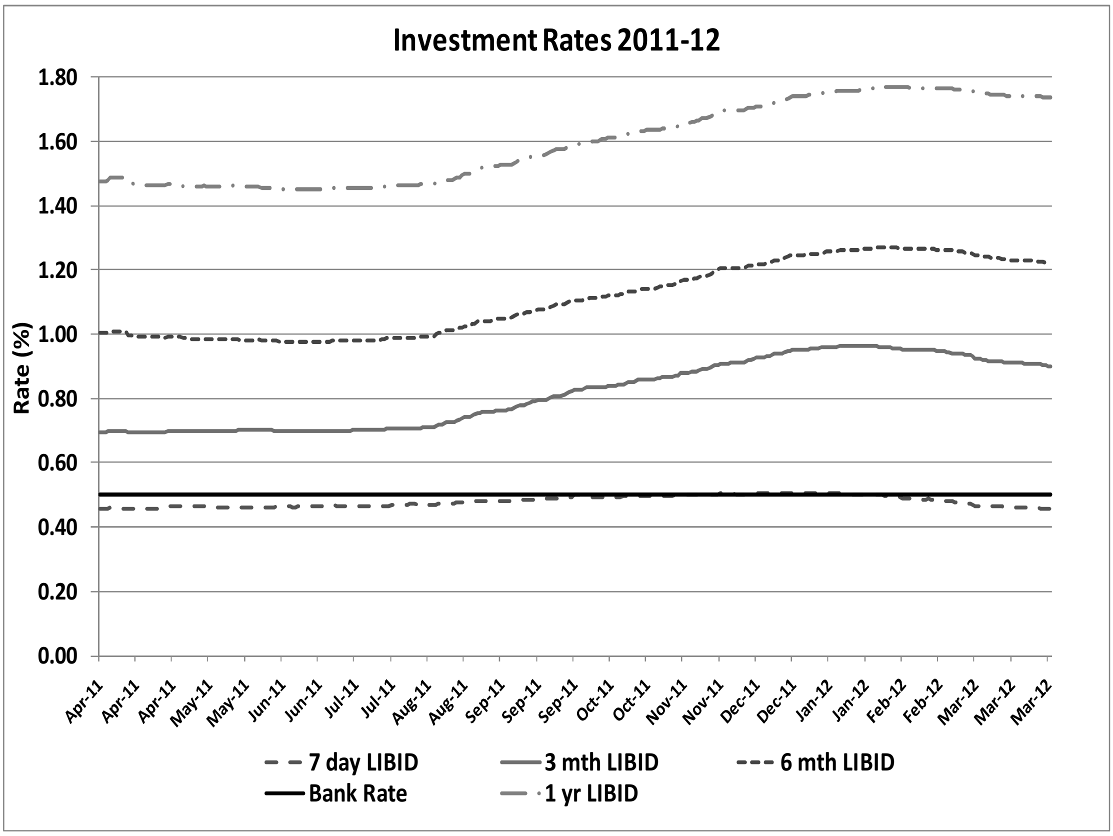
Bank Rate - was unchanged at 0.5% throughout the year while expectations of when the first increase would occur were steadily pushed back.

Deposit Rates - picked up in the second half of the year as competition for cash increased among banks.

Risk Premiums - were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

6. Investment Rates in 2011/12 (Sector provided information)

The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. The ECB's actions to provide nearly €1 trn of 1% 3 year finance to EU banks eased liquidity pressures in the EU and investment rates eased back somewhat in the quarter 1 of 2012. This action has also given EU banks time to strengthen their balance sheets and liquidity positions on a more permanent basis.



Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in a second rescue package for Greece in quarter 1 2012. Concerns extended to the potential fallout on the European banking industry if the crisis could have ended with Greece leaving the Euro and defaulting.

7. Investment Outturn for 2011/12

Investment Policy – the Council's investment policy is governed by CLG guidance, and the policy was approved by Council on 14 March 2012. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources	31 March 2011 £000	31 March 2012 £000
General Fund	1.350	1.350
Earmarked Reserves	11.655	13.306
Usable Capital Receipts	19.413	12.872
Total	**32.418**	**27.528**

Investments Held by the Council - the Council maintained an average balance of £30.493m of internally managed funds. The internally managed funds earned an average rate of return of 1.22%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.82%.

APPENDIX 2

MID YEAR TREASURY MANAGEMENT MONITORING REPORT

1. Capital Financing Requirement (CFR), External Debt and Operational Boundary

The CFR and Operational Boundary estimates are shown below:

Prudential Indicator	Opening Position 2012/13	Current Position	Forecast end of year
Capital Financing Requirement	£3m	£3m	£3m
External Debt / The Operational Boundary			
Long Term Borrowing	£10m	£0m	£0m
Short Term Borrowing	£3m	£0m	£0m

Limits to Borrowing Activity

The first key control over the treasury activity is a Prudential Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. As the Council is currently debt free, this control will always be met.

2. The Authorised Limit

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which borrowing is prohibited. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2012/13 Original Indicator	Current Borrowing Position	2012/13 Revised Indicator
Long & Short Term Borrowing	£13m	£0m	£13m

3. Interest Rate Movements and Expectations

The information relating to the interest rate movements and future expectations is shown within the Treasury Management Strategy Statement 2013/14 – 2015/16.

4. Current Investment Position

This information is reported in the Members Information Bulletins. The Council held £33.9m of investments at 30 September 2012 and the list of investments and counterparties is shown below:

Sector	Country	Up To One Year
Banks	UK	£23.9m
Building Societies	UK	£10.0m

List of Investments as at 30 September 2012:

Counterparty	Principal £
Clydesdale BS	3,000,000
Nat West Bank	9,000,000
Co-Operative Bank	2,900,000
Nationwide BS	2,000,000
Barclays Bank	3,000,000
Lloyds TSB Bank	3,000,000
Deutsche Bank	3,000,000
Skipton BS	2,000,000
Leeds BS	2,000,000
Yorkshire BS	2,000,000
Coventry BS	2,000,000
Total	**33,900,000**

The Council has no sums invested for greater than 364 days.

The revised budget position for investment income, on an accruals basis, is:

Investment Income	2012/13 Original Estimate	2012/13 Half Year Estimate	2012/13 Full Year Estimate
Interest Receivable	£0.325m	£0.325m	£0.325m

The following reports the current position against the benchmarks originally approved.

5. Security

The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, was set as follows:

0.01% Historic risk of default when compared to the whole portfolio.

Note: The benchmarks are an average risk of default measure, and would not constitute an expectation of loss against a particular investment. The benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

The Head of Strategic Finance can report that the investment portfolio was maintained within this overall benchmark during this year to date.

6. Liquidity

The Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft - £0.5m;
- Liquid short term deposits of at least £2m available with a week's notice;
- Weighted Average Life benchmark is expected to be 0.5years, with a maximum of 10 years.

The Head of Strategic Finance can report that liquidity arrangements were adequate during the year to date.

7. Yield

Local measures of yield benchmarks are:

- Investments – returns 0.12% above average bank rate.

The Head of Strategic Finance can report that return up to 30 September 2012 averaged 1.17%, against a benchmark rate of 0.62%. The actual investment interest rate is therefore 0.55% (89%) above the benchmark rate.

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APPENDIX 3

TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14 – 2015/16

1.0 Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators.

Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2013/14 to 2015/16 is included to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

2.0 The Capital Plans and the Prudential Indicators 2013/14 – 2015/16

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.

Capital Expenditure

The Council's capital expenditure plans were approved by Cabinet and Council on 21 January and 30 January 2013 respectively and form the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.

This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will affect the Council's borrowing need.

The key risks to the plans are that the level of capital receipts, may be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the poor condition of the property market.

Approving capital expenditure plans is the first prudential indicator.

3.0 The Council's Borrowing Need - The Capital Financing Requirement (CFR)

The second prudential indicator is the Council's CFR which 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.

Following accounting changes, the CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council is asked to approve the CFR projections below:

Capital Financing Requirement	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Financing Requirement	£3.0m	£3.0m	£3.0m	£3.0m	£3.0m
Adjustment A	£3.1m	£3.1m	£3.1m	£3.1m	£3.1m
Movement in the CFR	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m

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).

Watford Council's approach has been to comply with the previous MRP regulations which allowed for an adjustment A which allowed debt free authorities to continue to **not** make an MRP. Any new capital expenditure if unfunded and requiring credit cover above adjustment A would however need to generate a MRP.

4.0 Minimum Revenue Provision (MRP) Strategy and Policy Statement

Communities and Local Government Regulations have been issued which require 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

The Council currently has no debt and a zero adjusted CFR (as per table above). It is probable however that the Council will borrow up to a maximum of £10m to forward fund regeneration projects. The majority of this funding (£6m) will have a reasonable expectation of a repayment return within the period of the loan (5years) and relates to Growing Places funding at the Health Campus and, under CLG regulations no MRP would be necessary. The residual £4m of potential borrowing has yet to be earmarked and it is feasible that an investment return would be realised too far in the future. In these circumstances, and to provide maximum flexibility, a provision within the accounts of £150k per annum by way of a Minimum Revenue Provision is recommended from 2014/2015 onwards (as the MRP Regulations do not require the provision to be made until the year following the taking of any loan which would not be until 2014/2015 at the earliest).

This £150k is calculated on the **Asset Life Method whereby** MRP will be based on the estimated life of the assets and is in accordance with the proposed regulations. It is anticipated that this £150k addition to revenue can be accommodated in 2014/2015 without increasing the use of reserves currently earmarked / estimated within the Medium Term Financial Strategy.

Other options include the **Depreciation method –** MRP will follow standard depreciation accounting procedures and again is related to the life of the asset.

5.0 Treasury Indicators: Limits to Borrowing Activity

Long Term Borrowing- the Council has previously been debt free. At the present time there are a number of sources of external funding which have historically low borrowing costs. So for example, Growing Places Funding can either be interest free or geared to Public Works Loans Board rates which are themselves currently very low.

External Borrowing	2012/2013 Estimate	2013/2014 Estimate	2014/2015 Estimate	2015/2016 Estimate
Long Term	£10m	£10m	£10m	£10m

The Operational Boundary - this is the limit beyond which short term (cash flow) external borrowing 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 borrowing.

Operational Boundary	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Borrowing	£3m	£3m	£3m	£3m

The Authorised Limit for External Borrowing - A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council.
This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

The Audit Committee/ Council is asked to approve the following Authorised Limit and Maximum Gross Borrowing Position:

Authorised Limit & Maximum Gross Borrowing Position	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Borrowing-long and short	£13m	£13m	£13m	£13m
Other long term liabilities	£0m	£0m	£0m	£0m
Total	£13m	£13m	£13m	£13m

6.0 Treasury Management Issues

6.1 Treasury Management Strategy

The treasury management strategy is an important part of the overall financial management of the Council and it is a requirement that it is adopted by Council as one of the prudential indicators.

The Constitution requires a strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year. There is also a requirement for a mid-year monitoring report although for Watford, the Council's investment strategy is reported in detail to every meeting of the Audit Committee.

This strategy covers:
- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels(borrowing activity);
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Specific limits on treasury activities;
- Treasury performance indicators;
- Treasury advice;

- Training of Officers and Members.

The capital expenditure plans set out to 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.

6.2 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2012, with forward projections are summarised below.

Treasury Portfolio	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total Investments 31 March	£29.112m	£25.000m	£20,000m	£15.000m	£10.000m
Investment Change	-8.67%	-14.13%	-20.00%	-25.00%	-33.33%

Another key prudential indicator is that the Council needs to ensure that its total borrowing, 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 2013/14 and the following two financial years (shown as long term borrowing above).

The Head of Strategic Finance 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 within this report regarding future external borrowing.

6.3 Prospects for Interest Rates where a Council wishes to Borrow

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates and the following table and accompanying comments **provides Sector's views**.

Annual Average	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Month/Year	**%**	**%**	**%**	**%**
December 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
September 2013	0.50	1.60	3.80	4.00
December 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
September 2014	0.50	1.80	4.00	4.20
December 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
September 2015	1.25	2.50	4.60	4.80
December 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

(end of Sector's advice)

6.4 Borrowing Strategy

The Council has a number of regeneration projects and it is probable that the Council will need to take up external medium term borrowing in order to pump prime necessary infrastructure works. This report has highlighted elsewhere the need to permit a long term borrowing (over 365 days) facility of up to £10m. This loan facility should however provide future investment returns well in excess of conventional investment rates of interest.

6.5 Annual Investment Strategy

Key Objectives

The Council's investment strategy's primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The current economic ensures that the current investment climate has one over-riding priority which is the management of counterparty security risk.

Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then yield.

S ecurity
L iquidity
Y ield

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

Creditworthiness policy

The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Head of Strategic Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary and will provide an overall pool of counterparties considered high quality.

The rating criteria uses the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

Counterparty Categories

The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**
  The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.

- **Banks 2 – Eligible Institutions**
  The Council will use organisations considered an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. Note: Sector advice is for a cautious approach when using these Institutions.

- **Banks 3 – The Council's Own Banker**
  For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.

- **Bank Subsidiary and Treasury Operations –** the Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.

- **Building Societies**
  The Council will use all Societies which:

  Either,
  i. meet the ratings for banks outlined above;

  Or,
  ii. are eligible Institutions; and have assets in excess of limits for each category.

- **Specific Public Bodies**
  The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.

- **Money Market Funds AAA Rated**
  The Council may lend to Money Market Funds in order to spread its investment risk.

- **Local Authorities**
  A limit of £2m per authority will be applied.

- **Debt Management Deposit Account Facility**
  A Government body which accepts local authority deposits.

Country and Sector Considerations

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above.

Use of Additional Information Other Than Credit Ratings

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits Applying to Investments

The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

Exceptional Circumstances

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions The Head of Strategic Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase / decrease in all interest rates to the estimated treasury management costs / income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Revenue Budgets	2013/14 Estimated + 1% £m	2013/14 Estimated - 1% £m
Interest on Borrowing	0.100	0.100
Investment income	0.200	-0.200

6.6 Investment Strategy

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).

Investment Returns Expectations - Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2012/ 2013 0.50%
- 2013/ 2014 0.50%
- 2014/ 2015 0.50%
- 2015/ 2016 1.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) 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.

The suggested budgeted investment earnings rates for returns on investments during each financial year for the next four years are as follows:

- 2012/13 1.15%
- 2013/14 1.00%
- 2014/15 1.15%
- 2015/16 1.75%

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.

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

Treasury Indicator & Limit	2013/14	2014/15	2015/16
Maximum Principal Sums Invested > 364 days	£2m	£2m	£2m

Treasury Management Limits on Activity

There are three debt related treasury activity limits which are:

- **The Authorised Limit for Borrowing** - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. Proposed limit of £13m for 2013/14 to 2015/16.

- **The Operational Boundary –** the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. Proposed limit of £3m for 2013/14 to 2015/16.

- **Maximum gross borrowing position –** this is the absolute value of borrowing excluding investment balances – Proposed limit £13m for 2013/14 to 2015/16.

6.7 Investment Risk & Security Benchmarking

These benchmarks are simple guides to maximum 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 to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.01% historic risk of default when compared to the whole portfolio.

Liquidity – In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £2m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5years, with a maximum of 10 years for an individual loan with a public body.

Yield - Local measures of yield benchmark is (Performance Indicator):

- Investments – returns 0.12% above average bank rate.

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch/Moody's Standard and Poors long term rating category over the period 1990 to 2009.

Years	1	2	3	4	5
AAA	0.00%	0.01%	0.05%	0.10%	0.17%
AA	0.03%	0.06%	0.08%	0.14%	0.20%
A	0.08%	0.22%	0.37%	0.52%	0.70%
BBB	0.24%	0.68%	1.19%	1.79%	2.42%
BB	1.22%	3.24%	5.34%	7.31%	9.14%
B	4.06%	8.82%	12.72%	16.25%	19.16%
CCC	24.03%	31.91%	37.73%	41.54%	45.22%

The Council's minimum long term rating criteria is currently "AA", meaning the average expectation of default for a one year investment in a counterparty with an "AA" long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £300). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

The Council's investments in rated institutions are all for periods of less than one year, so the average loss will be scaled down by the length of investment.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- 0.01% historic risk of default when compared to the whole portfolio.

As the Council has no investment in rated institutions for more than 364 days, the security benchmark for more than one year is not applicable:

Security Benchmark	1 year	2 years	3 years	4 years	5 years
Maximum	**0.01%**	**N/A**	**N/A**	**N/A**	**N/A**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

6.8 Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The performance indicators used by this Council for the treasury function is:

- Investments – returns 0.12% above average bank rate.

The results of this indicator will be reported in the Treasury Annual Report.

6.9 Reporting Requirments

End of Year Investment Report - At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Report.

Mid-year Investment Report - In the middle of the financial year, the Council will report on its investment activity as part of its Mid Year Treasury Management Report. In addition the Audit Committee will receive quarterly investment reports.

6.10 Policy on the Use of External Service Providers

The Council uses Sector as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council 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.

6.11 Member and Officer Training

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

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management;
- Regular briefings both by e mail and face to face with the Council's consultants;
- Membership of the CIPFA Corporate Services Benchmarking Club for Treasury Management;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

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APPENDIX 4

Treasury Management Practice (TMP1)
Credit and Counterparty Risk Management

The 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 operate 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 has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Head of Strategic Finance has produced this Treasury Management Practices (TMP's) guidance. .

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy for the following year, covering the identification and approval of 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 that 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 considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).

2. A local authority, parish council or community council.

3. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies or a Building Society with assets over £5,000m. Non rated Building Societies are non-specified investments.

4. Money Market Funds (triple AAA rated only).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

The ratings criteria and exposure limits are detailed at **Schedule 1.**
There are exceptions to the schedule and, in accordance with Sector advice, RBS Group should continue to be included within the counterparty list even though Moody's has downgraded them to P-2 (which is below the ratings limits). This is because the RBS Group is 82% Government owned and is therefore considered to be 'secure'. The Audit Committee/ Council has previously approved that a £10m ceiling is permitted for investments with RBS.
In addition, for Lloyds Banking Group and RBS Group investments with a maturity of 12 months is permitted whereas for all other banking and building society institutions a 6 month maturity limit is currently in operation.

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:

	Non Specified Investment Category	Limit (£ or %)
a.	Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£2m or 10%
b.	The Council's own banker if it fails to meet the basic credit criteria.	£5m maximum ceiling
c.	Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000m, but will restrict these type of investments to £2m for up to six months.	£2m
d.	Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£2m

In accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

In respect of category d this will only be considered after obtaining external advice and subsequent Member approval.

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 Sector 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 principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Strategic Finance, and if required new counterparties which meet the criteria will be added to the list.

Institution Type	Max Amount:			£2m	£5m	£5m	£5m	£5m
	Max Length:			10 Years	364 Days	6 Months	3 Months	1 Month
	Minimum Short Term Ratings							
	Fitch	Moody's	S&P					
UK Banks								
Banks with Clearing Status in the United Kingdom	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
The Co-Operative Bank: Call Account a £10m maximum ceiling. The funds are capable of being 'called back' with one day's notice.	F1	P-1	A-1		Not Applicable	Not Applicable	Not Applicable	Not Applicable
The Council's own Bankers	F1	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and up to a maximum of £5m.				
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings		P-1	A-1	F1	Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
UK Building Societies								
Either	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Or					Assets over £5,000m	Assets over £5,000m	Assets of £5,000m	Assets over £5,000m
Specific Public Bodies				As approved by Members				
Money Market Funds (AAA Rated)								£5m per fund
UK Local Authorities				The Council can invest in all UK Local Authorities whether rated or not				

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.

2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).

3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.

4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

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