

APPENDIX 1: Treasury Management Strategy Statement Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2015/16

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1. Introduction

1.1 Background

Treasury management is defined 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.”

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, which provide a guide to the borrowing need of the Council. Although the Council does not borrow to finance its capital spending plans, officers still plan and forecast the longer term cash flow position in order to ensure that the Council can meet its capital spending obligations and that it maintains balances (working capital) at a prudent and sustainable level.

1.2 Statutory and reporting requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by the Executive & Resources Policy Development & Scrutiny Committee.

Prudential and Treasury Indicators and Treasury Strategy (this report) - This covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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 Part-Year Treasury Management Report (approved by Council in December 2014) – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

The Code also requires the Council to:

- Create and maintain a Treasury Management Policy Statement, which sets out the policies and objectives of the Council’s treasury management activities.
- Create and maintain Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.

- Delegate responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.3 Treasury Management Strategy for 2015/16

The proposed strategy for 2015/16 in respect of the following aspects of the treasury management function is based on officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Treasury Solutions.

The strategy covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the MRP strategy.

Treasury management Issues

- the current treasury position;
- treasury indicators that 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.

2. The Capital Prudential Indicators 2014/15 to 2017/18

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

2.1 Capital Expenditure. 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 (as per the capital monitoring and review report to Executive on 11th February 2015):

Capital Expenditure	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
Education	6.0	12.7	42.9	22.1	0.5
Care Services	2.1	1.9	7.9	1.1	0.0
Environment	7.0	10.0	5.7	6.4	4.1
Renewal & Recreation	3.3	4.3	2.5	1.6	0.0
Resources	6.8	23.3	5.6	15.5	0.0
Public Protection & Safety	0.0	0.3	0.0	0.0	0.0
Sub-Total	25.2	52.5	64.6	46.7	4.6
Add: Future new schemes	0.0	0.0	0.0	0.0	2.5
Less: Estimated slippage	0.0	-2.0	-5.0	2.0	2.0
Grand Total	25.2	50.5	59.6	48.7	9.1

NB. The above financing need excludes other long term liabilities (finance lease arrangements), which already include borrowing instruments.

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

Capital Expenditure	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
Total Expenditure	25.2	50.5	59.6	48.7	9.1
Financed by:					
Capital receipts	0.5	3.0	11.9	18.1	4.5
Capital grants/contributions	11.0	16.8	46.4	30.3	4.3
General Fund	-	-	-	-	-
Revenue contributions *	13.7	30.7	1.3	0.3	0.3
Net financing need	25.2	50.5	59.6	48.7	9.1

* These are approved contributions from the revenue budget, earmarked to fund specific schemes.

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. If the CFR is positive, the Council may borrow from the Public Works Loans Board (PWLB) or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The Council's CFR represents liabilities arising from finance leases entered into in recent years in respect of various items of plant and equipment (primarily equipment in schools and vehicles and plant built into highways and waste contracts). The Council currently has no external borrowing as

such. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The Council is asked to approve the CFR projections below:

CFR	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
Total CFR	2.6	2.3	2.0	1.7	1.4
Movement in CFR	-1.2	-0.3	-0.3	-0.3	-0.3

Movement in CFR represented by					
Net financing need for the year (above)	0.0	0.0	0.0	0.0	0.0
Less MRP/VRP and other financing movements	-1.2	-0.3	-0.3	-0.3	-0.3
Movement in CFR	-1.2	-0.3	-0.3	-0.3	-0.3

2.3 MRP Policy Statement

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 make additional voluntary payments (voluntary revenue provision - VRP).

CLG Regulations require the 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:

MRP will be based on the estimated lives of the assets, in accordance with the regulations, and will follow standard depreciation accounting procedures. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

In practice, the Council's capital financing MRP is assessed as 4% of the outstanding balance on the finance leases the Council has entered into. A Voluntary Revenue Provision (VRP) may also be made in respect of additional repayments.

2.4 The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves, etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact 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	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
General Fund balance	20.0	20.5	20.5	20.5	20.5
Capital receipts	22.0	28.5	22.8	12.6	9.1
Capital grants	23.7	30.0	30.0	30.0	30.0
Provisions	9.1	9.0	9.0	9.0	9.0
Other (earmarked reserves)	109.8	84.3	65.0	57.7	58.8
Total core funds	184.6	172.3	147.3	129.8	127.4
Working capital*	63.4	60.0	60.0	60.0	60.0
Under/over borrowing**	0.0	0.0	0.0	0.0	0.0
Investments	248.0	232.3	207.3	189.8	187.4

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

2.5 Affordability Prudential Indicators

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. In practice, these indicators are virtually irrelevant for Bromley, as we have no external borrowing other than residual finance leases. The Council is asked to approve the following indicators:

2.6 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.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	%	%	%	%	%
Non-HRA	-	-	-	-	-

2.7 Estimates of the incremental impact of capital investment decisions on Band D council tax. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended to the Executive in February compared to the Council's existing approved commitments and current plans. Only a very small proportion of the changes proposed will involve a contribution from Council resources and this will not impact on the level of Council Tax in future years. 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.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£	£	£	£	£
Council tax - band D	-	-	-	-	-

3. Treasury Management Strategy

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with 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 appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2014 is summarised below, together with forward projections. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
External borrowing					
Borrowing at 1 April	-	-	-	-	-
Expected change in borrowing	-	-	-	-	-
Other long-term liabilities (OLTL)	2.6	2.3	2.0	1.7	1.4
Expected change in OLTL	-	-0.3	-0.3	-0.3	-0.3
Actual borrowing at 31 March	-	-	-	-	-
CFR – the borrowing need	2.6	2.3	2.0	1.7	1.4
Under / (over) borrowing	2.6	2.3	2.0	1.7	1.4
Investments	248.0	232.3	207.3	189.8	187.4
Net investments	245.4	230.0	205.3	188.1	186.0
Change in Net investments	+48.1	-15.4	-24.7	-17.2	-2.1

Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these 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 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Finance Director reports that the Council complied with this prudential indicator in the current year and does not envisage non-compliance in the future. This view takes into account current commitments, existing plans, and the proposals in this year's budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. This is the total figure that 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 £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	10.0	10.0	10.0	10.0
Other long term liabilities	20.0	20.0	20.0	20.0
Total Operational Boundary	30.0	30.0	30.0	30.0

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 borrowing is prohibited and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. 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 this power has not yet been exercised.
2. The Council is asked to approve the following Authorised Limit:

Authorised limit £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m
Borrowing	30.0	30.0	30.0	30.0
Other long term liabilities	30.0	30.0	30.0	30.0
Total Authorised Limit	60.0	60.0	60.0	60.0

3.3 Prospects for Interest Rates

The Council has appointed Capita Treasury Solutions as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita view on short term (Bank Rate) and longer fixed interest rates.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
Mar 2015	0.50	0.50	0.90	2.20	3.40	3.40
Jun 2015	0.50	0.50	1.00	2.20	3.50	3.50
Sep 2015	0.50	0.60	1.10	2.30	3.70	3.70
Dec 2015	0.75	0.80	1.30	2.50	3.80	3.80
Mar 2016	0.75	0.90	1.40	2.60	4.00	4.00
Jun 2016	1.00	1.10	1.50	2.80	4.20	4.20
Sep 2016	1.00	1.10	1.60	2.90	4.30	4.30
Dec 2016	1.25	1.30	1.80	3.00	4.40	4.40
Mar 2017	1.25	1.40	1.90	3.20	4.50	4.50
Jun 2017	1.50	1.50	2.00	3.30	4.60	4.60
Sep 2017	1.75	1.80	2.30	3.40	4.70	4.70
Dec 2017	1.75	1.90	2.40	3.50	4.70	4.70
Mar 2018	2.00	2.10	2.60	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

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

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;
- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

The Council currently does not borrow to finance capital expenditure and finances all expenditure from external grants and contributions, capital receipts or internal balances. The Council does, however, have a Capital Financing Requirement (CFR) of £2.6m, which is the outstanding liability on finance leases taken out in respect of plant, equipment and vehicles.

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy and will monitor interest rates in financial markets.

Treasury Management Limits on Activity

There are three debt-related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any

adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£m	2013/14	2014/15	2015/16
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	20%	20%	20%
Maturity Structure of fixed interest rate borrowing 2013/14			
	Lower	Upper	
Under 12 months (temporary borrowing only)	100%	100%	
12 months to 2 years	N/A	N/A	
2 years to 5 years	N/A	N/A	
5 years to 10 years	N/A	N/A	
10 years and above	N/A	N/A	

3.5 Policy on Borrowing in Advance of Need

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. 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.

4 Annual Investment Strategy

4.1 Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

4.2 Investment Policy

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, then return.

In accordance with the above 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.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that 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 environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

The intention of the strategy is to provide security of investment and minimisation of risk.

4.3 Creditworthiness policy

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Investment Counterparty Selection Criteria - The primary principles governing the Council's investment criteria are the security and liquidity of its investments, although the yield or return on the investment is also a key consideration. After these main principles, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of 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. These criteria are separate to those that determine which types of investment instrument are either Specified or Non-Specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The rating criteria use 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 of which meets the Council's criteria, while the other does not, the institution will fail outside the leading 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 Capita, our treasury consultants, on all active counterparties that comply with the criteria below. 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. For instance, a negative rating watch applying to counterparty at the minimum Council criteria may be suspended from use, with all others being reviewed in light of market conditions.

In addition, the Council receives weekly credit lists as part of the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS (Credit Default Swap) spreads to give early warning of likely changes in credit ratings (these provide an indication of the likelihood of bank default);
- sovereign ratings to select counterparties from only the most creditworthy countries.

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 code bands which indicate the relative creditworthiness of counterparties and a recommendation on the maximum duration for investments. The Council would not be able to

replicate this level of detail using in-house resources, but uses this information, together with its own view on the acceptable level of counterparty risk, to inform its creditworthiness policy. The Council will also apply a minimum sovereign rating of AA+ to investment counterparties.

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

- **Banks 1** - good credit quality – the Council will only use banks which:
 - a) are UK banks;
 - b) are non-UK and domiciled in a country with a minimum long-term sovereign rating of AA+ or equivalent;
 - c) have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
 - Short term – Fitch F1; Moody's P-1; S&P A-1
 - Long term – Fitch A-; Moody's A3; S&P A-
- **Banks 2** – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included provided they continue to be part nationalised.
- **Bank subsidiary and treasury operation** - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings in Banks 1 above.
- **Building societies** - The Council will use all societies that meet the ratings in Banks 1 above.
- **Money Market Funds** – The Council will use AAA-rated Money Market Funds.
- **UK Government** (including gilts and the DMADF)
- **Other Local Authorities, Parish Councils, etc.**
- **Collective (pooled) investment schemes**
- **Supranational institutions**
- **Corporate Bonds**
- **Certificates of Deposit, Commercial Paper and Floating Rate Notes**

The Council's detailed eligibility criteria for investments with counterparties are included in Annex 2.

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

- if a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use for new investments will be withdrawn immediately.
- in addition to the use of Credit Ratings, the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Further advice is also received from the Council's external cash manager, Tradition UK.

Sole reliance will not be placed on these external advisers. In addition, this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support. The Council forms a view and determines its investment policy and actions after taking all these factors into account.

4.4 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using these credit criteria as at the date of this report is shown in Annex 2. This list will be amended by officers should ratings change in accordance with this policy.

4.5 Investment Strategy

In-house funds: The Council's core portfolio is around £250m although cashflow variations during the course of the year have the effect from time to time of increasing the total investment portfolio to a maximum of around £290m. 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).

Interest returns outlook: Bank Rate has been unchanged at 0.50% since March 2009 and is forecast to remain unchanged until the end of 2015, when it is expected to start to rise slowly. Capita's bank Rate forecasts for financial year ends (March) are as follows:

- 2014/15 0.50%
- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

Capita's 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:

- 2015/16 0.60%
- 2016/17 1.25%
- 2017/18 1.75%
- 2018/19 2.25%
- 2019/20 2.75%
- 2020/21 3.00%
- 2021/22 3.25%
- 2022/23 3.25%
- Later years 3.50%

Investment 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: -

As at year end	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Principal sums invested > 364 days	170.0	170.0	170.0	170.0

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

4.6 End of year investment report

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

4.7 External fund managers

£20m of the Council's funds are externally managed on a discretionary basis by Tradition UK. They are required to comply with the Annual Investment Strategy and are permitted to use specified and non-specified investments, subject to the Council's own counterparty eligibility criteria and lending limits. Their performance is closely monitored by the Director of Finance and is reported quarterly to the Resources Portfolio Holder and the Executive & Resources PDS Committee.

4.8 Policy on the use of external service providers

The Council uses Sector as its external treasury management advisors and Tradition UK as external cash fund managers.

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.

4.9 Scheme of delegation

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

4.10 Role of the section 151 officer

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function

- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

ANNEXES

1. Economic background
2. Specified and non specified investments – Eligibility Criteria
3. Prudential Indicators – summary for approval by Council

ANNEX 1. Economic Background

THE UK ECONOMY

After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

Eurozone (EZ). The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

Greece: the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti-austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of

anti EU and anti-austerity political parties throughout the EU are much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti-austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA. The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

China. Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

CAPITA'S FORWARD VIEW

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 transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. 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.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to

experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

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 strong economic growth is 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.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into 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 2. Specified and Non-Specified Investments

Eligibility Criteria for investment counterparties

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria (i.e. non-sterling and placed for periods greater than 1 year).

A variety of investment instruments will be used. Subject to the credit quality of the institution and depending on the type of investment made, investments will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

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 relatively low risk investments where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Account deposit facility, a UK Treasury Bill or a Gilt with a maximum of 1 year to maturity).
2. A local authority, parish council or community council (maximum duration of 1 year).
3. Corporate or supranational bonds of no more than 1 year's duration.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This includes the Payden Sterling Reserve Fund.
5. A bank or building society that has been awarded a high credit rating by a credit rating agency (only investments placed for a maximum of 1 year).
6. Certificates of deposit, commercial paper or floating rate notes (maximum duration of 1 year).

Minimum credit ratings (as rated by Fitch, Moody's and Standard & Poors) and monetary and time period limits for all of the above categories are set out below. The rating criteria use 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 of which meets the Council's criteria while the other does not, the institution will fall outside the lending criteria. The Council will take into account other factors in determining whether an investment should be placed with a particular counterparty, but all investment decisions will be based initially on these credit ratings criteria. The Council will also apply a minimum sovereign rating of AA+ to investment counterparties.

NON-SPECIFIED INVESTMENTS

Non-specified investments are any other type of investment (i.e. not defined as Specified above) and can be for any period over 1 year. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

	Non Specified Investment Category	Limit (£ or %)
a.	Bank Deposits with a maturity of more than one year and up to a maximum of 3 years. These can be placed in accordance with the limits of the Council's counterparty list criteria (i.e. subject to satisfaction of Fitch, Moody's and Standard & Poors credit ratings criteria shown below).	£80m and 3 years limits with Lloyds Bank and RBS.
b.	Building Society Deposits with a maturity of more than one year. These can be placed in accordance with the limits of the Council's counterparty list criteria (i.e. subject to satisfaction of	None permitted at present.

	Fitch, Moody's and Standard & Poors credit ratings criteria shown below).	
c.	Deposits with other local authorities with a maturity of greater than 1 year and up to a maximum of 3 years. Maximum total investment of £15m with each local authority.	£15m limit with each local authority; maximum duration 3 years.
d.	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The use of UK Government gilts is restricted to fixed date, fixed rate stock with a maximum maturity of five years. The total investment in gilts is limited to £25m and will normally be held to maturity, but the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. The Director of Finance must personally approve gilt investments. The Council currently has no exposure to gilt investments.	£25m in total; maximum duration 5 years.
e.	Non-rated subsidiary of a credit-rated institution that satisfies the Council's counterparty list criteria. Investments with non-rated subsidiaries are permitted, but the credit-rated parent company and its subsidiaries will be set an overall group limit for the total of funds to be invested at any time.	Subject to group limit dependent on parent company's ratings.
f.	Corporate Bonds with a duration of greater than 1 year and up to a maximum of 5 years, subject to satisfaction of credit ratings criteria as set out below.	£25m in total; maximum duration 5 years.
g.	Collective (pooled) investment schemes with a duration of greater than 1 year. The total investment in collective (pooled) investment schemes is limited to £25m and can include property funds, diversified growth funds and other eligible funds.	£25m in total.
h.	Certificates of Deposit, Commercial Paper and Floating Rate Notes with a duration of greater than 1 year, subject to satisfaction of credit ratings criteria as set out below.	Subject to group banking limits dependent on bank / building society credit ratings.

CRITERIA FOR FUNDS MANAGED INTERNALLY AND EXTERNALLY

- **Banks General** - good credit quality – the Council may only use banks which:
 - a) are UK banks;
 - b) are non-UK and domiciled in a country with a minimum long-term sovereign rating of AA+ or equivalent;
 - c) have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
 - Short term – Fitch F1; Moody's P-1; S&P A-1
 - Long term – Fitch A-; Moody's A3; S&P A-
- **Banks 1A – UK and Overseas Banks (highest ratings)** - the Council may place investments up to a total of £30m for a maximum period of 1 year with UK banks (and up to a total of £15m for a maximum period of 1 year with Overseas banks) that have at least the following Fitch, Moody's and Standard & Poors ratings (where rated).

	Short-Term	Long-Term
Fitch	F1+	AA-
Moody's	P-1	Aa3
S & P	A-1+	AA-

Banks 1B – UK and Overseas Banks (very high ratings) - the Council may place investments up to a total of £20m for a maximum period of 1 year with UK banks (and up to a total of £10m for a maximum period of 6 months with Overseas banks) that have at least the following Fitch, Moody's and Standard & Poors ratings (where rated).

	Short-Term	Long-Term
Fitch	F1	A
Moody's	P-1	A1
S & P	A-1	A+

Banks 1C – UK and Overseas Banks (high ratings) – the Council may place investments up to a total of £10m for a maximum period of 6 months with UK banks (and up to a total of £5m for a maximum period of 3 months with Overseas banks) that have at least the following Fitch, Moody's and Standard & Poors ratings (where rated):

	Short-Term	Long-Term
Fitch	F1	A-
Moody's	P-1	A3
S & P	A-1	A-

- **Banks 2 - Part nationalised UK banks (Lloyds TSB and Royal Bank of Scotland)** - the Council may place investments up to a total of £80m for up to 3 years with both of the part-nationalised UK banks Lloyds Bank and the Royal Bank of Scotland provided they remain part-nationalised.
- **Bank subsidiary and treasury operation** - The Council may use these where the parent bank has provided an appropriate guarantee and has the necessary ratings in Banks 1 above. The total investment limit and period will be determined by the parent company credit ratings.
- **Building societies** - The Council may use all societies that meet the ratings in Banks 1 above.
- **Money Market Funds** – The Council may invest in AAA rated Money Market Funds. The total invested in each of these Funds must not exceed £15m at any time. This includes the Payden Sterling Reserve Fund for which a limit of £15m is also applied.
- **UK Government (including gilts and the DMADF)** – The Council may invest in the government's DMO facility for a maximum of 1 year, but with no limit on total investment. The use of UK Government gilts is restricted to a total of £25m and to fixed date, fixed rate stock with a maximum maturity of 5 years. The Director of Finance must personally approve gilt investments.
- **Local Authorities, Parish Councils etc** – The Council may invest with any number of local authorities, subject to a maximum exposure of £15m for up to 3 years with each local authority.
- **Business Reserve Accounts** - Business reserve accounts may be used from time to time, but value and time limits will apply to counterparties as detailed above.

- **Corporate Bonds** – Investment in corporate bonds with a minimum credit rating of A- is permitted, subject to a maximum duration of 5 years and a maximum total exposure of £25m.
- **Collective (pooled) investment schemes** – these may comprise property funds, diversified growth funds and other eligible funds and are permitted up to a maximum (total) of £25m.
- **Certificates of Deposit, Commercial Paper and Floating Rate Notes** – These are permitted, subject to satisfaction of minimum credit ratings in Banks General above.
- **Sovereign Ratings** – The Council may only use counterparties in countries with sovereign ratings of AAA and AA+.

These currently include:

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

ANNEX 3 Prudential and Treasury Indicators

Prudential and Treasury Indicators are relevant for the purposes of setting an integrated treasury management strategy and require the approval of the Council. They are included separately in Appendix 1 together with relevant narrative and are summarised here for submission to the Council meeting for approval.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised Code (published in 2009 and updated in 2011) was initially adopted by full Council on 15th February 2010 and has subsequently been re-adopted each year in February.

PRUDENTIAL INDICATORS	2013/14	2014/15	2015/16	2016/17	2017/18
	actual	estimate	estimate	estimate	estimate
Total Capital Expenditure	£25.2m	£50.5m	£59.6m	£48.7m	£9.1m
Ratio of financing costs to net revenue stream	0.0%	0.0%	0.0%	0.0%	0.0%
Net borrowing requirement (net investments for Bromley)					
brought forward 1 April	£197.3m	£245.4m	£230.0m	£205.3m	£188.1m
carried forward 31 March	£245.4m	£230.0m	£205.3m	£188.1m	£186.0m
in year borrowing requirement (movement in net investments for Bromley)	+£48.1m	-£15.4m	-£24.7m	-£17.2m	-£2.1m
Capital Financing Requirement as at 31 March	£2.6m	£2.3m	£2.0m	£1.7m	£1.4m
Annual change in Cap. Financing Requirement	-£1.2m	-£0.3m	-£0.3m	-£0.3m	-£0.3m
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p
Increase in council tax (band D) per annum	-	-	-	-	-

TREASURY MANAGEMENT INDICATORS	2013/14	2014/15	2015/16	2016/17	2017/18
	actual	estimate	estimate	estimate	estimate
Authorised Limit for external debt -					
borrowing	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
other long term liabilities	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
TOTAL	£60.0m	£60.0m	£60.0m	£60.0m	£60.0m
Operational Boundary for external debt -					
borrowing	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m
other long term liabilities	£20.0m	£20.0m	£20.0m	£20.0m	£20.0m
TOTAL	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
Upper limit for fixed interest rate exposure	100%	100%	100%	100%	100%
Upper limit for variable rate exposure	20%	20%	20%	20%	20%
Upper limit for total principal sums invested for more than 364 days beyond year-end dates	£202.5m	£170.0m	£170.0m	£170.0m	£170.0m