TREASURY MANAGEMENT STRATEGY 2017/18

1. INTRODUCTION

Background

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the investment reduction of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

CIPFA defines treasury management as:

> *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether 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 above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

Training

The 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 providing training sessions for the Treasury/Audit Committee members on the subject of treasury management and will carry on doing so.

The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

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

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. During 2017, the Council intends to re-tender the Treasury Advice Contract in partnership with the GO authorities and Gloucestershire County Council and a new contract should be in place for 1st December 2017.

2. THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

The Council's capital expenditure plans are a key driver in treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' 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 below. The table also summarises how these plans are being financed. Any shortfall in resources will result in the need to use additional capital resources (or ultimately create a borrowing requirement).

Capital Expenditure					
	2015/16 £000 Actual	2016/17 £000 Budget**	2017/18 £000 Estimate	2018/19 £000 Estimate	2019/20 £000 Estimate
Proposed Capital programme:					
Capital expenditure	4,030	4,926	2,842	1,326	1,736
c/f capital schemes*	-	(700)	700	-	-
	4,030	4,226	3,542	1,326	1,736
Financed by:					
Capital receipts	2,674	3,306	2,442	426	836
Capital Grants	894	400	650	650	650
General Fund	250	250	250	250	250
Earmarked reserves	212	270	200	-	-
	4,030	4,226	3,542	1,326	1,736

* This represents an estimate of the schemes planned for 2016/17 that will be incomplete at 31st March 2017 and the budget will therefore be carried-forward into 2017/18.

** The 2016/17 budget shown is the current approved budget, less the estimate for budgets to carry-forward into 2017/18.

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 represents the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. Any capital expenditure that has not immediately been paid for will increase the CFR.

The calculation of the CFR is taken from amounts held in the balance sheet relating capital expenditure and the associated sources of financing. This includes certain assets which may have been acquired under finance-lease or PFI-type arrangements, where the Council accounts for the asset on its balance sheet, but the asset is not fully financed.

The Council can borrow, provided it ensures such borrowing is affordable, prudent and sustainable.

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31st March 2016 are:

Capital Financing Requirement (CFR)					
	31/3/16 £000 Actual	31/3/17 £000 Revised	31/3/18 £000 Estimate	31/3/19 £000 Estimate	31/3/20 £000 Estimate
Total CFR	0	0	0	0	0

2.3 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. The Council is asked to approve the following indicators:

2.4 Ratio of financing costs to net revenue stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. As the Council is in a net investment position (investment income is greater than interest payable) the calculation results in a negative figure.

The actual ratio of financing costs to net revenue stream for 2015/16 and estimates for the current and future years are:

Ratio of Financing Costs to Net Revenue Stream					
	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Ratio	-3.11	-3.13	-3.04	-3.11	-3.02

2.5 Incremental impact of capital investment decisions on Council Tax

A fundamental indicator of the affordability of capital expenditure plans is its impact on council tax. Any borrowing for capital purposes has an impact on the revenue account and, to the extent that it is not supported by government or other contributions, on council tax. The capital programme is primarily funded through the use of the Council's capital receipt balances. Using capital receipts has the effect of reducing the ability to raise investment income on the balances, and thus impacts upon the revenue budget.

As the Council is currently debt-free, the increase in cost equates to the loss in investment interest the Council no longer generates as its capital reserves are consumed. Based upon the proposed Capital Programme in point 2.1 above (including schemes carried-forward into 2017/18), if the cost in lost investment income receipts were borne by the taxpayer (at the bank of England base-rate estimates quoted in this report), the cost would be as follows:

	2017/18 £	2018/19 £	2019/20 £
Cost per 'band D' taxpayer in £:	0.11	0.07	0.16

3. BORROWING

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 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, any projected or current debt positions (if any) and the annual investment strategy.

3.1 Current portfolio position

The Council currently has no debt and is not looking to take on any new borrowing in the near future as investment returns are very low and borrowing costs are much higher, so it is prudent to use internal borrowing to cover the capital programme from existing capital receipts and grants.

£000	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
The Capital Financing Requirement	0	0	0	0	0
Under / (over) borrowing	0	0	0	0	0
Investments	22,245	28,000	25,000	22,000	21,000

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed.

Operational Boundary for External Debt				
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Borrowing	4,500	4,500	4,500	4,500
Other long term liabilities	0	0	0	0
Total	4,500	4,500	4,500	4,500

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Council is asked to approve the following authorised limit:

Authorised Limit for External Debt				
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Borrowing	6,500	6,500	6,500	6,500
Other long term liabilities	0	0	0	0
Total	6,500	6,500	6,500	6,500

3.3 Prospects for interest rates

The Council has appointed Capita 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 central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

• Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.

• Major national polls:

- Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
- Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
- Dutch general election 15.3.17;
- French presidential election April/May 2017;
- French National Assembly election June 2017;
- German Federal election August – October 2017.

• A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats

• Weak capitalisation of some European banks, especially Italian.

• Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

• UK economic growth and increases in inflation are weaker than we currently anticipate.

• Weak growth or recession in the UK's main trading partners - the EU and US.

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

• UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.

• A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

• The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

• A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

3.4 Borrowing strategy

The Council is currently debt free and is not looking to take on any debt in the near future. This means that the capital borrowing need (the Capital Financing Requirement), has been funded from the Council's reserves and balances. This strategy is prudent as investment returns are low and counterparty risk is still relatively high.

The Chief Finance Officer will monitor interest rates in the financial markets and adopt a pragmatic approach to any changing circumstances.

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 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 and then return.

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

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political 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.

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.

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.

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

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 soverign 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 aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

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

Investment instruments identified for use in the financial year are listed below in paragraph 4.2 under the 'specified' and 'non-specified' investments categories as well as the counterparty limits.

4.2 Specified and Non- Specified Investments

Specified Investments are investments offering high security and high liquidity. The investments will be sterling denominated with maturities up to a revised maximum of one year and meet the minimum 'high' credit rating criteria where applicable. Instruments identified for use in the financial year are listed in table below under the 'specified' and 'non-specified' investments categories.

Non-specified investments are of greater potential risk and cover deposit periods over one year. Capita continue to maintain the view that, for the time being, clients should look to the short end of the market when making investment decisions and it is the intention of this Council to lend for a maximum period of two years as recommended by Capita for fixed term deposits.

Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓

Investment	Specified	Non-Specified
Local Authority Bills	✓	×
*Repo/reverse repo – fixed term deposits with banks and other financial institutions	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	×
Property Funds	✓	✓
Other Money Market and Collective Investment Schemes (including Property Funds)	✓	✓
Debt Management Account Deposit Facility	✓	×

* A repo is the name for a sale and repurchase agreement; a contract in which a party (cash borrower) sells a security to another, agreeing to buy it back at a later date at a specified price. A reverse repo is purely the cash lenders side of the transaction; lending money to an organisation and receiving high quality collateral against it. As a form of collateralised lending this is based on the GMRA (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

- Index linked gilts
- Conventional gilts
- UK Treasury bills
- DBV (Delivery by Value)
- Corporate Bonds

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

	*** Minimum credit criteria / colour band**	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	£unlimited	6 months
UK Government gilts/bonds	UK sovereign rating	£2m	2 years
UK Government Treasury bills	UK sovereign rating	£2m	2 years

	* Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
Bonds issued by multilateral development banks	UK sovereign rating	£2m	6 months
Money market funds	AAA	£5m per fund	Liquid
*Repos/Reverse Repo through custodian King & Shaxson	N/A	£4m	1 year
Local authorities	N/A	£5m	Unlimited
Enhance Money Market funds	AAA	£5m per fund	Liquid
Pooled Funds	UK sovereign rating AAA	£4m per fund	2 Years
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	£9m per banking group but £7m per bank/building Society	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	£9m per banking group or £7m per bank/building society	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use
Corporate bond funds	UK sovereign rating	£4m in total	Up to 10 Years
Gilt funds	UK sovereign rating	£2m in total	Up to 5 Years
Property funds	UK sovereign rating	£5m in total	Non-Specified

4.3 Creditworthiness policy

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

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;

- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No colour not to be used

The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-. The table shown in appendix B shows the current list in use at the time of this report.There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings avaialble, or other topical market information, to support their use. UK part nationalised banks such as National Westminster Bank and Royal Bank of Scotland are currently rated as BBB+ but remain on the list as they have the government support at present. However once the majority of these banks shares are sold they will be colour coded as an unsupported bank in line with all the other banks, and if the rating falls below A-, will be removed from the lending list.

All credit ratings will be monitored weekly and upon any adhoc changes. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

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- (moved down from AA+ 16/17)** from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix B. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Approved countries for investments

AA+ or higher

- Australia
- Canada
- Denmark
- Finland
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.25% for all of the 2017/18 financial year.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts and money market funds in order to benefit from the compounding of interest.

4.5 Council's Banker

The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Councils intention that even if the credit rating of Lloyds falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

4.6 Annual Minimum Revenue Provision (MRP) Statement

The annual MRP Statement is disclosed in Appendix C.

4.7 Balanced Budget Requirement

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.