

**Treasury Management  
Strategy Statement  
2013/14  
And Prudential  
Indicators 2013/14 to  
2015/16**



## TREASURY MANAGEMENT STRATEGY STATEMENT

### 1. Introduction

- 1.1. This Treasury management strategy statement (TMS) has been compiled in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice (the code) on Treasury Management (revised 2011). Accordingly, the Council's Treasury Management Strategy (TMS) will be approved annually by the full Council. In addition the mid-year, outturn and monthly monitoring reports will be reviewed by councillors in both Executive and Scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function understand fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.
- 1.2. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -
1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
  2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.
- 1.3. This TMS has been prepared in an economic climate where there is continued uncertainty in Europe, growth in the UK remaining low and a number of sovereign and banks creditworthiness being downgraded.
- 1.4. This Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code, which is detailed further in paragraph 12.

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Strategy and Annual Investment Strategy	Financial Monitoring Panel- Scrutiny Full council -Approval	Annually before the start of the year
Treasury Management Strategy and Annual Investment Strategy – mid-year report	Financial Monitoring Panel – Scrutiny Executive – Approval	Mid-year

<b>Area of Responsibility</b>	<b>Council/ Committee/ Officer</b>	<b>Frequency</b>
Annual Treasury Outturn Report - Review	Financial Monitoring Panel – Scrutiny Executive - Approval	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Financial Monitoring Panel	Monthly

- 1.5. 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.
- 1.6. The Act therefore requires the Council to set out its treasury strategy for investments and borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) included as paragraph 9 of this report; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.7. The suggested strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services.

## **2. Treasury Management Strategy for 2013/14**

- 2.1. The strategy for 2013/14 covers two main areas:

### Capital

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

### Revenue, Policy and Procedures

- 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;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external advisors.

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.

### **3. Training**

- 3.1. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and training will be provided as necessary.

### **4. Treasury management advisors**

- 4.1. The Council uses Sector as its external treasury management expert advice.
- 4.2. 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 advisors.
- 4.3. 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.

### **5. Treasury Limits for 2013/14**

- 5.1. It is a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised limit represents the legislative limit in the Act.
- 5.2. The Council must have regard to The Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax levels is ‘acceptable’.
- 5.3. Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

### **6. The Capital Prudential Indicators 2013/14 – 2015/16**

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

## 6.2. Capital expenditure

- 6.2.1. 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:

Capital expenditure £'000	2012/13 Estimate	2012/13 Forecast	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Central Services	958	365	1,371	0	0
Cultural, Social & Related Services	1,040	811	2,748	1,067	48
Environmental Services	186	72	114	0	0
Highways, Roads & Transport Services	1,108	1,033	1,390	0	0
Housing Services	0	672	490	0	0
Planning & development Services	344	207	267	0	0
<b>Total</b>	<b>3,636</b>	<b>3,160</b>	<b>6,380</b>	<b>1,067</b>	<b>48</b>

- 6.2.2. The variance between 2012/13 Estimate and Forecast includes Civic Offices New Windows (Asset Management) £300,000 being deferred until 2013/14, Disabled Facilities Grant (Housing Services) increasing by £658,000 and Enhance Sports Pavilions / Pitches (Street Scene Services) being deferred into future years.

- 6.2.3. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £'000	2012/13 Estimate	2012/13 Forecast	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
<b>Financed by:</b>					
Capital receipts	2,249	1,422	2,093	1,067	48
Capital grants	0	244	296	0	0
Revenue	1,387	1,494	1,991	0	0
Borrowing	0	0	2,000	0	0
<b>Net financing need for the year</b>	<b>3,636</b>	<b>3,160</b>	<b>6,380</b>	<b>1,067</b>	<b>48</b>

## 6.3. The Council's borrowing need (the Capital Financing Requirement)

- 6.3.1. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

6.3.2. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

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

£m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Previous Year CFR B/Fwd	0.0	0.0	2.0	2.0
Movement in CFR in the Year	0.0	2.0	0.0	-0.4
<b>Total CFR</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.6</b>

#### 6.4. Minimum revenue provision (MRP) policy statement

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

6.4.2. CLG regulations have been issued which 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

6.4.3. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Option 1 – Regulatory Method** - MRP will follow the existing practice outlined in former CLG regulations (i.e. CFR is calculated after Adjustment A)

From 1 April 2008 for all unsupported borrowing the MRP policy will be

- **Option 3 - Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

6.4.4. For authorities who participate in LAMS using the cash backed option, the mortgage lenders require a five year deposit from the local authority to match the five year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. However, as an Earmarked Reserve will be created to fund this expenditure, the CFR will reduce down again.

## 6.5. Core funds and expected investment balances

- 6.5.1. 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 on-going 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 £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total core funds	13.0	13.0	12.0	11.0
Working capital	9.0	6.0	4.0	4.0
<b>Expected investments</b>	<b>21.0</b>	<b>19.0</b>	<b>16.0</b>	<b>15.0</b>

## 6.6. Affordability prudential indicators

- 6.6.1. 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:

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

- 6.6.3. **Incremental impact of capital investment decisions on council tax.** This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Ratio of financing costs to net revenue	-2.53%	-0.92%	-0.92%	-1.98%
Incremental impact of capital investment decisions on council tax	£0.32	£0.37	£0.35	£0.35



## 6.7. Current portfolio position

- 6.7.1. The Council's anticipated Treasury position at 31 March 2013, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt at 1 April	0.0	0.0	2.0	2.0
Expected change in Debt	0.0	2.0	0.0	-0.4
<b>Actual gross debt at 31 March</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.6</b>
<b>The Capital Financing Requirement</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.6</b>

<b>Under / (over) borrowing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
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- 6.7.2. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 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.
- 6.7.3. The Director of Resources 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.

**6.8. Treasury Indicators: limits to borrowing activity**

6.8.1. **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

6.8.2. **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.

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:

£m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Operational Boundary	6.0	8.0	8.0	8.0
Authorised Limit	6.5	8.5	8.5	8.5

**6.9. Borrowing strategy**

6.9.1. The Authority currently has no borrowing requirement and no external loans. The approved capital programme is expected to produce an increase of £2m in the Capital Financing Requirement as the authority will then have the power to take external loans to finance this position.

## 6.10. Treasury management limits on activity

6.10.1. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

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

	2013/14	2014/15	2015/16
<b>Interest rate exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Borrowing - Variable</b>	30%	30%	30%
<b>Borrowing -Fixed</b>	100%	100%	100%
<b>Investments –Variable</b>	75%	75%	75%
<b>Investments - Fixed</b>	100%	100%	100%
<b>Maturity structure of fixed interest rate borrowing 2013/14</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	
<b>Maturity structure of variable interest rate borrowing 2013/14</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	

## 6.11. Policy on borrowing in advance of need

6.11.1. 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.

## **7. Current Portfolio Position**

7.1. The weighted average investment portfolio from April 2012 to December 2012 is £32.6m. Listed below are the year end investment balances and the rate of return for the financial half year 2012/2013 up to 31 December 2012 together with a comparison of the position at 2011/12 year end:

	<b>31 March 2012</b>	<b>31 December 2012</b>
Investment Portfolio Actual As At	£26.1m	£36.2 m
	<b>1 April 2011 to 31 March 2012</b>	<b>1 April 2012 to 31 December 2012</b>
Average return core on investments	1.54%	1.19%

7.2. The average return on core investments achieved between 01 April 2012 and 31<sup>st</sup> December 2012 is 1.19% which is 0.39% above the budgeted rate of 0.80%.

## **8. Annual Investment Strategy**

8.1. The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments 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 are: -

- (a) the security of capital and
- (b) the liquidity of its investments.

8.2. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. This reflects the state of the economy and the fragile state of the banking sector. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

8.3. The risk of default remains a concern; if 10% of the Council's portfolio of £21m were to default then the potential loss could be £2m – £3m. The Council has managed the risk by only investing in financial institutions with good credit ratings and by investing in countries that have a sovereign rating of AAA.

8.4. Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014. Bank Rate forecasts for financial year ends (March) are:

2012/13	0.50%
2013/14	0.50%
2014/15	0.75%
2015/16	1.50%

8.5. There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

## 8.6. Types of Investments

8.6.1. Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investment categories. Preference will be made for specified investment in the current economic climate.

8.6.2. **Specified Investments** - These will have high security and high liquidity, denominated in sterling and not a long term investment i.e. maturity date of no more than 12 months. The investment is not defined as capital expenditure.

The investment is to be made with:

- The UK Government
- Debt Management Office Accounts
- UK Local Authorities and Parish Councils
- Institutions or investment schemes with a credit rating that meets the criteria mentioned above such as a money market fund.

8.6.3. **Non-specified Investments** - All other investments not covered above. The Council's policy is to invest in non-specified investments, which meet all the criteria of a specified investment as outlined in the strategy above except for the maturity date which is longer than 12 months. The Council will place deposits in accordance with the Sector matrix recommended colour durations, and where possible spread the amounts and dates of maturing investments as evenly as possible over this period. This avoids an excess of investments maturing in any one particular year and helps towards a more stable rate of return. For all investment transactions the optimum period must be considered in the light of cash flow and market conditions, and alternative investment products.

## **9. Current Strategy**

9.1.1. The Key elements of the current TMS are:

- Creditworthiness policy
- Sovereign ratings
- Counter party Limits
- Group and individual limits

## **9.2. Creditworthiness policy**

9.2.1. This Council uses the creditworthiness service provided by the Treasury consultants; Sector. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as 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

9.2.2. 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. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

9.2.3. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands

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

*\*this category has been added for AAA rated Government debt or its equivalent and includes investments with other local authorities;*

- 9.2.4. All credit ratings will be monitored regularly. 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. Consideration will also be giving to terminating existing investments where appropriate.
  - 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.
- 9.2.5. 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 from credible sources such as financial times, information on government support for banks and the credit ratings of that government support.
- 9.2.6. **The Local Authority Mortgage Scheme (LAMS)** – The Council is currently participating in the cash backed mortgage scheme which requires the Council to place a matching five year deposit to the life of the indemnity. This investment is an integral part of the policy initiative and is outside the criteria above.

### 9.3. Country limits

- 9.3.1. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This list will be added to, or deducted from; by officers should ratings change in accordance with this policy.

Current AAA Rated Countries by Fitch:

- Australia
- Canada
- Denmark
- Finland
- France\*
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.\*

\* These Countries currently have a sovereign credit rating of AA+ with Standard & Poors rating service. France has also been downgraded by Moodys to Aa1.

9.3.2. There is potential that the UK could be downgraded by one or more of the ratings agency over the next 12 months. Sector has advised that should this happen the downgrading of other countries are likely to follow leaving very few with AAA status. This would considerably reduce the number of counterparties available in which the council could invest if the strategy were to remain unchanged. **It is therefore recommended that should Fitch downgrade the UK to AA rating the Council will continue to invest in UK banks based on the creditworthiness and group limits policy set out in this strategy.**

9.3.3. No more than 30% of the total portfolio is to be invested in any one country, except the UK.

#### 9.4. Group Limits

9.4.1. As well as using the Sector matrix, the Council will limit its exposure to any one particular Institution or group of banks, for example the Lloyds Group and Santander Group. The Council will adopt a tiered exposure using Fitch long term (or equivalent from other agencies if Fitch does not provide) to determine the amount of funds placed with each institution. The DMO account, UK Government and Local Authorities and UK part nationalised banks will have a separate limit of £10m. Money market funds will have a credit limit of £8m per fund.

Long term	Credit Limit
AAA	£8m
AA+	£8m
AA	£8m
AA-	£8m
A+,A <sup>1</sup>	£2m
DMO, UK Government and Local Authorities.	£10m
Part Nationalised banks	£10m

9.4.2. The council will endeavour to diversify its investment portfolio by country, group and institution. However, the Council may decide to limit the counterparty diversification and invest in Country where there is better understanding about economy and Government intention such as desire to support institutions from defaulting and plan to tackle government deficit.

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<sup>1</sup> For institutions with a long term rating of A + or A, only those with a minimum support rating of 1 will be considered for investment purposes.



## **9.5. Money Market Funds (MMF)**

- 9.5.1. Money market funds are mutual funds that invest in short-term debt instruments. They provide the benefits of pooled investment, as investors can participate in a more diverse and high-quality portfolio than they otherwise could individually. Like other mutual funds, each investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund. Money market funds are actively managed within rigid and transparent guidelines to offer safety of principal, liquidity and competitive sector-related returns.

## **9.6. Barclays**

- 9.6.1. If Barclays as the Council's main bankers were to fall below the minimum criteria set out above the council will continue to utilise the bank for transaction purposes only. This will limit the Council's exposure as any investment (non-transactional) will follow this strategy.

## **9.7. Cooperative Bank**

- 9.7.1. Currently the Council also utilises the Cooperative bank to process Paypoint transactions. As the Cooperative does not meet the minimum investment criteria balance held in this account will be kept to a minimum and regularly transferred out.

## **10. Risk Implications**

### **10.1. Monitoring**

- 10.1.1. On a monthly basis Officer's will report to Financial Monitoring Panel providing details of new investments, rate of returns and highlighting changes to sovereign rating, group limits and any other relevant treasury issues that may arise.

### **10.2. Other Issues**

- 10.2.1. Investment guidance was issued under the Local Government Act 2003, which requires that the full Council should approve the Council's annual investment strategy. The Capital Finance and Accounting Regulations 2003, which came into force on 1 April 2004, also include provisions relating to local authority investments. From this date investments are classified by the Government into two categories, Specified and Non-Specified.

## **11. Icelandic bank defaults**

- 11.1.1. Following the collapse of the Icelandic bank Landsbanki in early October 2008, its subsidiary Heritable Bank plc (a UK registered bank under Scottish law) entered into administration in 6 October 2008. At this time the Council had £1m invested with maturity due 24 November 2008.
- 11.1.2. As at the 31<sup>st</sup> December 2012 the Council has received £750,972.67 or 74.44 pence in the pound. The administrators (Ernst & Young) advise they may be able to realise

86 to 90 pence the pound base return and 74 to 80 pence per pound in stress case scenario. The next dividend has been announced for January 2013 but at this stage that amount has not been declared.

## **12. Treasury Management scheme of delegation**

### **(i) Full Council**

- receiving and reviewing reports on Treasury Management strategy and policy
- Approval of annual strategy.

### **(ii) Executive**

- approval of/amendments to the organisation's adopted clauses, and treasury management practices
- approval of the division of responsibilities
- Approving the selection of external service providers and agreeing terms of appointment.

### **(iii) Financial Monitoring Panel**

- Scrutiny of Treasury Management Performance
- Receiving and reviewing regular monitoring reports and scrutinising on-going Treasury Management performance.

### **(iv) Director of Resources**

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

## **13. The Treasury Management role of the section 151 officer**

### **The S151 (responsible) officer**

- 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.