APPENDIX 1

Treasury Management Strategy Statement 2016/17 And Prudential Indicators 2016/17 to 2018/19

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).

1.2. The Council's TMS will be approved annually by the full Council. In addition the mid-year and outturn reports will from 2016/17 onwards be reviewed by councillors in a scrutiny capacity by the Audit Committee.

1.3. The Financial monitoring panel will also be presented with monthly monitoring reports detailing projected income forecasts, creditworthiness updates and operational changes to treasury activities.

1.4. 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.

1.5. As noted above this Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code:

Report	Committee	Frequency
Treasury Management Strategy (TMS)	Audit Committee - Scrutiny	annually before the start of the financial year
	Full Council - Approval	annually before the start of the financial year
Treasury Management Mid-year review	Audit Committee - Scrutiny	annually by the 31 December each year
	Full Council - Approval	annually with TMS
Annual Treasury Outturn Review	Audit Committee - Scrutiny	annually by the 30 September after each year end
	Full Council - Approval	annually with TMS
Treasury Management Monitoring Reports	Financial Monitoring Panel	monthly

1.6. Where the reporting cycle does not match the above timetable the report will be presented at the next available relevant committee or meeting.

1.7. 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 such as: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs as a result of new capital projects.

It is important that these costs are limited to a level which is affordable within the projected income of the Council for the foreseeable.

1.8. The Act also 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 in section 7 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.

1.9. This strategy includes views on interest rates and leading market forecasts provided by the Council's treasury advisor, Capita Asset Services.

2. Treasury Management Strategy for 2016/17

2.1. The strategy for 2016/17 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.

2.2 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 Capita Asset Service as its external treasury management advisor. 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.

4.2. 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. The Capital Prudential Indicators 2016/17 – 2018/19

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

5.2. CAPTAL EXPENDITURE

5.2.1. 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 which match the forecast as set out the Capital Budget 2016/17 (report ref C16-04)

Capital expenditure £'000	**2015/16 Original Budget**	**2015/16 Revised Budget**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2018/19 Total**
Central Services	449	33	479	63	0	575
Cultural, Social & Related Services	713	38	432	0	995	1,465
Environmental Services	866	367	195	607	0	1,169
Highways, Roads & Transport Services	754	178	335	217	0	730
Housing Services	1,583	1,284	822	430	430	2,966
Planning & development Services	274	244	692	0	0	936
Total	**4,639**	**2,145**	**2,954**	**1,318**	**1,425**	**7,842**

5.2.2. There were no new capital bids recommended by Asset Management Panel for 2016/17, however two major projects are envisaged at Elstree Film Studios and Newberries Car Park, Radlett.

- Elstree Film Studios - the development of a 21,000 sq. ft. stage plus 26,000 sq. ft. ancillary areas (C/15/18 - agreed by Council on 16 September 2015 – subject to setting out detailed plans for financing, procurement and project management)

- Newberries Car Park – the design and development of a 11,000 sq. ft. Retail/Food store and 80 room hotel. (EX/15/50 – on 14 December 2016 Executive recommended to Council approval to progress the design and development to planning stage). £400k has been added to the capital budget for the cost of the initial planning application stage including a Project Manager to deliver the project. These costs are to be funded from the Innovation and Investment fund.

5.2.3. 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	**2015/16 Original Estimate**	**2015/16 Revised Budget**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**Total**
Financed by:						
Capital receipts	3,384	995	1,440	5	995	**3,435**
Capital grants	0	550	315	290	290	**1,445**
Revenue	1,255	600	1,340	1,088	0	**2,963**
Borrowing	0	0	0	0	0	**0**
Net financing need for the year	**4,639**	**2,145**	**2,804**	**1,119**	**995**	**7,842**

5.3. THE COUNCIL'S BORROWING NEED (THE CAPITAL FINANCING REQUIREMENT)

5.3.1. 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 after taking into account adjustment A (refer to paragraph 5.3.4 below). It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above (paragraph 5.2.1), which has not immediately been paid for, will increase the CFR.

5.3.2. The CFR does not increase indefinitely as the Council is required to set aside an amount each year from revenue to finance historical capital expenditure that was not financed in the year it was incurred. This minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

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

CFR projections £m	2015/16 Original Estimate	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Previous Year CFR B/Fwd	0	9,930	5,932	5,650	5,367
Movement in CFR in the Year	0	(3,998)	(282)	(282)	(282)
Total CFR	**0**	**5,932**	**5,650**	**5,367**	**5,085**

5.3.4. The CFR in the previous Treasury strategy (original estimates), as detailed above for 2015/16, has been shown as a nil balance. However in technical terms the Council has always had a CFR of £9.93M which dates back to a change in accounting practice in 2007 and represents unfunded capital spend as at that date which could not be classified against individual Council assets and was known in accounting terms as “adjustment A”. For Hertsmere the “adjustment A” likely relates to the Council’s Leisure Centres now managed under full repairing leases by Hertsmere Leisure Trust and whilst revenue resources have been set aside to fund these historic costs they have been held in a revenue reserve rather than a set aside capital reserve. Historically the CFR figure was calculated less the “adjustment A”, as allowed under Capital Accounting guidance, hence the CFR has previously been shown as a nil balance.

5.3.5. Having recently reviewed this position and given that Hertsmere is now looking at significant capital investment in the near future, which will require some borrowing increasing the Council’s CFR and mindful of the Prudential Code’s guidance on affordability, it would be prudent to restate this revenue reserve to clear this balance by setting aside a voluntary contribution of c£4m in 2015/16. This is a deviation from the original Treasury strategy for 2015/16 but following approval of this report a c£4m restatement adjustment will be applied as part of the closedown of the 2015/16 Financial statements. The remaining CFR of £5.9m will be written down through MRP via an ongoing contribution from revenue which is already part of the base revenue budget.

5.3.6. Projects such as Newberries Car park development and the Elstree Film studios mound development have not been included within the above projections. Once these projects have been formally agreed and included within the Capital programme then the CFR may need to increase and further MRP required as Capital reserves are likely to be insufficient to finance these projects.

5.3.7. It is also likely that we will seek to fund the Phase I of the EFS development from future revenue streams arising from the project, which so far has been financed though reserves.

5.4. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

5.4.1. 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).

5.4.2. CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. Councils are required to determine each year an amount of MRP which they consider to be prudent. CLG provides statutory guidance as to how it considers this duty can be met, but the guidance is not binding if alternative arrangements result in a prudent outcome. The Council is recommended to approve the following MRP Statement.

5.4.3. 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) However as detailed in paragraph 5.3.4 the council will set aside a voluntary MRP adjustment of c£4m for 2015/16. The remaining CFR balance of £5.9M will be written down through an annual MRP from 2016/17 onwards.

5.4.4. 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).

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

5.4.6. The Council would not be required to make an additional MRP until the financial year following completion of Phase II of the development of Elstree Studio's and the year following the development of Newberries Car Park.

5.5. The Local Authority Mortgage Scheme (LAMS)

5.5.1. As an authority who participates 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 (Capital Adjustment Account) will be created to fund this expenditure, the CFR will reduce down again.

5.6. **Core funds and expected investment balances**

5.6.1. 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	2015/16 Forecast	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total core funds	15.0	15.0	14.0	14.0
Working capital	17.7	13.3	5.0	5.0
Expected investments	**32.7**	**28.3**	**19.0**	**19.0**

5.6.2. The current level of working capital is expected to reduce due to utilisation of cash balances and as provisions materialise in cash terms. Forecasting beyond the forthcoming year can be volatile to decisions such as the utilisation of working capital to finance capital expenditure. If the Council were to utilise internal reserves and cash flow balance to finance part or all of schemes such as the Elstree Film studios and Newberries developments then the balance available for investment would be significantly reduced. The figures above do not reflect any utilisation of the council's reserves to finance these two capital projects.

5.7. AFFORDABILITY PRUDENTIAL INDICATORS

5.7.1. 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:

5.7.2. **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.

5.7.3. **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.

	2014/15 Actual	2015/16 Forecast	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio of financing costs to net revenue	(2.22%)	(2.34%)	(1.62%)	(1.72%)	(1.75%)
Incremental impact of capital investment decisions on council tax	£1.04	£0.50	£0.60	£0.45	£0.03

5.7.4. **The** above table does not include any borrowing other than the financing cost of the initial £1m LEP Loan for the EFS mound project which is repaid off over the next five years.

5.8. **Borrowing**

5.8.1. **Current portfolio posion:**

5.8.2. The Council's anticpated Treasury position at 31 March 2015, with forward projections are summarised below.

£m	2015/16 Original Estimate	2015/16 Revised Forecast	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Actual gross debt at 31 March	0.8	0.8	0.6	0.4	0.2
The Capital Financing Requirement	0	9.93	5.93	5.65	5.67
Under / (over) borrowing	**(0.8)**	**9.13**	**5.33**	**5.25**	**5.47**

5.8.3. As detailed in 5.3 the CFR figures have been adjusted to include the adjustment A figure.

5.8.4. The £1m loan as per the table above has been borrowed from the Local Enterprise Partnership (LEP) at a rate of 1.30% for 5 years. The loan will be repaid in equal instalments over the five years. The purpose of this loan is to help finance the development of phase 1 of the Elstree Studio's mound site.

5.8.5. 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 the forthcoming financial year and the following two financial years. Paragraphs 5.3.5 indicates that the CFR will increase further in the near future, subject to the Council approving phase 2 of the Elstree Film Studios project and Newberries Car park developments.

5.8.6. On that basis, 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.

5.9. **TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY**

5.10. **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.

5.11. **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 limits:

£m	2015/16	2016/17	2017/18	2017/18
Operational Boundary	18	28	28	28
Authorised Limit	20	30	30	30

5.12. **Borrowing strategy**

5.13. The Council is likley to borrow once Phase II of the redevelopment of the Mound project at EFS and Newberries Car park has been formally approved. The exact timing will depend on the project timescales, projected borrowing rates and cashflow requirements. The limits above reflect the fact that borrowing is probable should the two schemes go ahead.

5.14. TREASURY MANAGEMENT LIMITS ON ACTIVITY

5.14.1. 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:

Interest rate exposures	2016/17	2017/18	2018/19
	Upper	**Upper**	**Upper**
Borrowing - Variable	30%	30%	30%
Borrowing -Fixed	100%	100%	100%
Investments –Variable	75%	75%	75%
Investments - Fixed	100%	100%	100%
Maturity structure of fixed interest rate borrowing 2016/17			
		Lower	**Upper**
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%
Maturity structure of variable interest rate borrowing 2016/17			
		Lower	**Upper**
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%

5.15. **Policy on borrowing in advance of need**

5.15.1. 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.

5.16. **Treasury management: Principal sums invested and maturity**

5.16.1. This indicator shows the maximum the Council expects to invest for periods longer than 364 days at any point in time and the maturity structure of those investments. It shows the Council’s exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of principal sums invested.

Maximum principal sums invested > 364 days			
£m	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£10m	£10m	). £10m

6. Current Portfolio Position

6.1. The weighted average investment portfolio from April 2015 to November 2015 is £40m with an average return of 0.77%. Listed below are the year-end investment balances and the rate of return for the financial year 2015/2016 up to November 2015 together with a comparison of the position at 2014/15 year end.

Investment Portfolio actual as at	**31-Mar-15** £36.5m	**30-Nov-15** £49.2m
Average return on core investments	**1 April 14 to 31 March 15** 0.76%	**1 April 15 to 30 November 2015** 0.77%

6.2. As detailed below the current year forecast predicts a favourable variance of £130k by year end. (March 2016)

	Investment Average balance	**Interest**	**Rate**
Forecast:	**£'000**	**£'000**	**%**
Budget	13,350	160	1.21%
Forecast to 31/03/16	36,955	290	0.78%
Forecast favourable / (adverse) variance	**23,605**	**130**	**-0.43%**

6.3. The forecast interest surplus has arisen as a result of having greater than anticipated balances available to invest throughout 2015/16. This has arisen in part due to:

- Prudent and conservative budgeting of investment income.
- Delayed or re-profiled capital spend.
- Provisions in final accounts which have yet to materialise in cash terms.
- Previously anticipated that Phase II of the "Mound" project would have commenced reducing levels of available balances by several million.

6.4. The investment portfolio is expected to reduce from approximately £49.2m at the end of November to £37m by the 31st March 2016. This is due to the cash flow requirements of the councils such as Council tax and Business rates income being paid over the first ten months of the year thus reducing investment balances in the final two months of the year.

7. Annual Investment Strategy

7.1. 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:

(a) the Security of capital;
(b) the Liquidity of its investments; and
(c) the Yield.

7.2. 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.

7.3. The risk of default remains a concern; if 10% of the Councils portfolio of £36.5m as at 31 March 2015 were to default then the potential loss could be £3m – £4m. The Council has managed the risk by only investing in financial institutions with good credit ratings and those part owned by the UK Government.

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

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

7.5. 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.

7.6. **Types of Investments**

7.6.1. Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investment categories.

7.6.2. **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
- Term deposits with institutions or investment schemes with a credit rating that meets the criteria detailed in section 8.
- Money Market funds with AAA rating

7.6.3. **Non-specified Investments -** The Council's policy is to invest in non-specified investments, which meet all the criteria of a specified investment as outlined below. This includes but not limited to term deposits and Certificate of deposits issued by banks and building societies.

7.6.4. The Council will place deposits in accordance with the Capita Asset Service 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.

8. Current Strategy

8.1.1. The Key elements of the current TMS are:

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

8.2. Creditworthiness policy

8.2.1. This Council uses the creditworthiness service provided by the Treasury consultants; Capita Asset Service. 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

8.2.2. 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.

8.2.3. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

8.2.4. All credit ratings will be monitored regularly**.** The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Service 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 given 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.

8.2.5. 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.

8.2.6. **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.

8.3. Group Limits

8.3.1. As well as using the Capita Asset Service 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.

	Fitch Long term Rating (or equivalent)	Money and/or % Limit	Time Limit
Higher Quality Rated Banks	***AAA AA+ AA, AA-***	**£8M**	**As per Capita recommended duration.**
Medium Quality Rated Banks	**A+ A**	**£4m**	**As per Capita recommended duration.**
Part nationalised* (Currently only RBS/Natwest fall into this category)	**N/A**	**£10m**	**As per Capita recommended duration – Currently 1yr**
Barclays Bank – Council's banker. (In addition to limit based on Fitch rating.)	**N/A**	**£5m**	**Daily limit**
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**N/A**	**£10m**	**5yrs**
Money market funds	**AAA**	**£8m**	**liquid**

8.3.2. 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 Countries where there is better understanding about economy and Government intention such as desire to support institutions from defaulting and plan to tackle government deficit.

8.4. Country limits

8.4.1. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AAA* (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. However this does not extend to the UK which is currently rated AA+ by Fitch.

8.5. **Current AAA Rated Countries by Fitch:**

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland

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

8.6. **Money Market Funds (MMF)**

8.6.1. 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.

8.7. **Main Bankers - Barclays**

8.7.1. Currently the council utilises Money Market funds for short term liquidity purposes, however each payment transaction is subject to a chaps charge (bank charge). It is therefore proposed that in addition to the limits set under the main investment strategy, Barclays as our main banker will be further utilised for liquidity purposes. This will involve having balances of up to £5m held in the council business premium account through the use of the banks sweeping system thus avoiding bank charges.

8.8. **Cash processing risk - Cooperative Bank**

8.8.1. Currently the Council also utilises the Cooperative bank to process Pay-point 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.

8.9. **Municipal Bond Agency**

8.9.1. It is likely that the Municipal Bond Agency, currently in the process of being set up in conjunction with the Local Government Association (LGA) will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate. The Council has committed to placing £20k toward the initial set up of this enterprise through the purchase of shares.

9. Risk Implications

9.1. Monitoring

9.1.1. On a monthly basis Officers 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. Icelandic bank defaults

10.1.1. 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.

10.1.2. The Council has received the 15th Dividend of £40k from Ernst and Young bringing the total received to £988K. The council is currently receiving external legal advice in order to recover the remaining £22k including interest.

11. Treasury Management scheme of delegation

(i) Full Council

- receiving and reviewing reports on Treasury Management strategy and policy
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, and treasury management practices
- approval of the division of responsibilities

(iii). Audit Committee

- scrutiny of/amendments to the organisation's adopted clauses, and treasury management practices
- scrutiny of the division of responsibilities

(iv) Financial Monitoring Panel

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

(v) Director of Resources

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

12. 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.