

**Treasury Management Strategy Statement**  
Minimum Revenue Provision Policy Statement and  
Annual Investment Strategy

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Maidstone Borough Council  
2016/17

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## 1 INTRODUCTION

### 1.1 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 service is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need 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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

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."*

### 1.2 Reporting requirements

The Council is required to receive and approve the Treasury Management Strategy, which incorporates a variety of policies, 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).

The following reports are not required to be approved by Council but are to be reported and scrutinised to the relevant Committee. The Council has delegated this function to the Audit, Governance and Standards Committee.

**A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and 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.

A quarterly update on the Council's treasury management position is also provided through budget monitoring reports presented to Policy & Resources Committee.

### **1.3 Treasury Management Strategy for 2016/17**

The strategy for 2016/17 covers two main areas:

#### **Capital issues**

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

#### **Treasury management issues**

- 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; and
- creditworthiness policy.

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

### **1.4 Treasury management consultants**

The Council uses Arlingclose Limited as its external treasury management advisors.

Responsibility for treasury management decisions ultimately remains within the organisation and officers will not place undue reliance on the advice of external service providers.

The terms of appointment and value gained through use of treasury management consultants will be subject to regular review.

### **1.5 Training**

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. A treasury management training session was delivered by Capita, the Council's previous treasury management advisors in July 2015 and was open for all members to attend. Further training will be arranged as required.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study

professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

## **2 THE CAPITAL PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION**

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 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. Capital expenditure forecasts are shown below:

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
4,514	20,830	19,700	13,641	2,314

### **2.2 The Council's borrowing need (the Capital Financing Requirement)**

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

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.

The CFR includes the liability for the arrangement with Serco Paisa for leisure centre improvements. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

CFR projections are shown in the table below:

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
-5,054	10,020	23,272	33,743	33,637

### **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.

### 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.

2015/16	2016/17	2017/18	2018/19	2019/20
%	%	%	%	%
-1.3	0.6	3.2	4.4	4.8

2015/16	2016/17	2017/18	2018/19	2019/20
£000	£000	£000	£000	£000
-3.62	1.71	9.54	17.74	19.06

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

## **2.4 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.

### **Incremental impact of capital investment decisions on the band D council tax**

	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
<b>Council tax - band D</b>	-2.10	7.96	15.43	22.44	20.65

## **2.5 Minimum Revenue Provision**

Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.

The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure.

Although the Council has maintained a capital financing reserve based upon the prudential borrowing limit previously set, the MRP was based upon the actual payments made under the Serco Paisa arrangements for

the capital works completed by Serco at Maidstone Leisure Centre. Debt repayment is made by annual installments over the 15 year life of the contract and it is therefore considered appropriate to base MRP payments on this value and no additional voluntary provision is deemed necessary.

With the real potential for the use of prudential borrowing it is felt appropriate that a policy statement is approved by Council in line with the requirements of the Code. The Code states that there is a choice between two options, or a combination of methods based on the nature of different arrangements:

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);

Depreciation method – MRP will follow standard depreciation accounting procedures.

Due to the requirement to split assets into component parts and depreciate different components at different rates, the asset life method of calculating MRP would provide a more stable and transparent method for the Council to use.

### 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 relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### 3.1 Treasury Indicators: limits to borrowing activity

**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.

<b>Operational boundary</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Debt	0	11,950	27,475	38,475
Other long term liabilities	4,971	4,514	4,033	3,526
Total	4,971	16,464	31,508	42,001

**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:

<b>Authorised limit</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Debt	4,000	15,950	31,475	42,475
Other long term liabilities	4,971	4,514	4,033	3,526
Total	8,971	20,464	35,508	46,001

### 3.2 Prospects for interest rates

The Council's advisors, Arlingclose Ltd, have provided the following interest rate forecast:

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Average
<b>Official Bank Rate</b>														
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.31
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.12
Downside risk			-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73
<b>3-month LIBID rate</b>														
Upside risk	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.36
Arlingclose Central Case	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.50	1.60	1.65	1.70	1.75	1.24
Downside risk		-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20	-1.20	-0.83
<b>1-yr LIBID rate</b>														
Upside risk	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.41
Arlingclose Central Case	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15	2.15	1.82
Downside risk	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25	-1.25	-0.88
<b>5-yr gilt yield</b>														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.30	1.38	1.45	1.53	1.60	1.68	1.75	1.83	1.90	1.98	2.05	2.13	2.20	1.75
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
<b>10-yr gilt yield</b>														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.90	1.95	2.00	2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45	2.50	2.20
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
<b>20-yr gilt yield</b>														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.53	2.55	2.58	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.65
Downside risk	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20	-1.20	-0.89
<b>50-yr gilt yield</b>														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.55	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.83	2.85	2.69
Downside risk	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15	-1.15	-0.84

#### Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

### 3.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been funded using cash supporting the Council's reserves, balances and cash flow as a temporary measure, rather than through loan debt. This strategy is prudent as currently investment returns are low and counterparty risk is relatively high.

The authority to borrow up to £6m for the financing of capital expenditure is included in the current capital programme and the current prudential indicators. The 2016/17 strategy includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

Should rates move quicker than the forecast predicts, the current and proposed strategies do allow the Head of Finance and Resources to take advantage of external borrowing. The Council's policy on borrowing in advance of need is set out at section 3.4 of this strategy.

**Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds (except the Kent County Council Pension Fund)

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

### **3.4 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 Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £20 and £45 million.

**Objectives:** Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

**Strategy:** Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. This is especially the case for the estimated £8m that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, money market funds and cash enhanced funds. This diversification will represent a continuation of the new strategy adopted in 2015/16.

**Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

#### Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£8m 20 years	£8m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£8m 10 years	£8m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£8m 5 years	£8m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£8m 4 years	£8m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£8m 3 years	£3m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£8m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£8m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
BBB+	£2m 100 days	3m 6 months	£2m 2 years	£2mm 6 months	£3m 2 years

BBB	£2m next day only	3m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£8m 25 years	£50,000 5 years	£3m 5 years
Pooled funds	£8m per fund				

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

**Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

**Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

#### Non-Specified Investment Limits

	<b>Cash limit</b>
Total long-term investments	£8m
Total investments without credit ratings or rated below A-	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£5m
Total non-specified investments	£18m

The council will maintain a counterparty list to identify institutions suitable for investment. The counterparty list will be maintained using the following principles:

**Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Investment Limits:** In order that available reserves will not be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £8m million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£8m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£8m per group
Any group of pooled funds under the same management	£8m per manager
Negotiable instruments held in a broker's nominee account	£8m per broker
Foreign countries	£8m per country
Registered Providers	£8m in total
Unsecured investments with Building Societies	£5m each
Loans to unrated corporates	£5m each
Money Market Funds	£8m each fund or fund group

**Liquidity Management:** The Authority uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

#### **Accounting treatment of investments.**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**In-house funds.** The majority of investments will be made with reference to the cash flow requirements so invested for short-term interest rates (i.e. rates for investments up to 12 months). However, there is a provision of funds that can be used for longer term investments (greater than 12 months) if it deemed to be prudent by the Head of Finance & Resources.

## **4.2 Investment strategy**

**Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

<b>Maximum principal sums invested &gt; 364 days</b>			
	<b>2016/17 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>
Principal sums invested > 364 days	8,000	8,000	8,000

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Upper limit on fixed interest rate exposure	-£39m	-£39m	£-39m
Upper limit on variable interest rate exposure	-£40m	-£40m	-£40m

The upper limit on fixed interest rates incorporates expected borrowing of £6m within the strategy which reduced the negative investment limit. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2016/17.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	<b>Upper</b>	<b>Lower</b>
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

#### **4.3 End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report as previously stated within 1.2.

#### **4.4 Other Items**

It is a requirement of the Prudential Code of Practice for Treasury Management that Authorities have a policy on use of financial derivatives. Local authorities have previously made use of financial derivatives

embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.