Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Maidstone Borough Council

2015/16

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

The second main function of the treasury management service is the funding of the Council's capital plans. 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, as a minimum, three main reports each year, which incorporate 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).

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.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role has previously been undertaken by the Audit Committee.

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

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 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 MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions 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 responsibe for scrutiny. A treasury management training session was delivered by Capita, the Council's treasury management advisors in December 2014 and was open for all members to attend. Further training will be arranged as required.

The training needs of treasury management officers are also periodically reviewed.

2 THE CAPITAL PRUDENTIAL INDICATORS

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:

2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
11,673	5,170	5,528	5,310	5,086

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:

2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
-65	-2,033	-2,033	-2,033	-2,033

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.

<u>Ratio of financing costs to net revenue stream</u>

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.

2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
-1.1	0.0	0.0	-0.3	-1.1	-1.1

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

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Council tax - band D	1.20	4.4	4.42	4.34	4.21

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, 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.

Operational boundary	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Debt	6,000	6,000	6,000	6,000
Other long term liabilities (Serco Pasia*)	5,426	4,971	4,514	4,033
Total	11,426	10,971	10,514	10,033

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:

Authorised limit	2014/15 £000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	10,000	10,000	10,000	10,000
Other long term liabilities (Serco Pasia*)	5,426	4,971	4,514	4,033
Total	15,426	14,971	14,514	14,033

* Other Long Term Liabilities is the same for Operational Boundary and Authorised Limit due to no additional liabilities will be incurred during 2015/16.

3.2 Prospects for interest rates

The Council's advisors, Capita Asset Services, have provided the following interest rate forecast:

Annual Average %	**Bank Rate %**	**PWLB Borrowing Rates % (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

Previously the bank rate was anticiptated to rise in June 2015. However, partly due to the UK economic growth not being as high as previously predicted, the forecast has now been revised to the end of 2015. Investment returns are therefore expected to remain relatively low during 2015/16 and beyond.

These rates are also reflected in the corresponding reduction in short term PWLB lending rates.

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 2015/16 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 more quickly 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.

The current long term borrowing rate from the Public Works Loan Board is 3.4% for 25 years. Were the Council to temporarily borrow the necessary resources from its own cash balances rather than complete a further one year investment it would save the equivalent of 2.7% of the amount borrowed. The affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially.

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 Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

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

a) Use the Council's Treasury Management Consultant's scheme for rating of institutions for creditworthiness which uses a sophisticated modeling approach with credit rating agencies, Moodys, Fitch and Standard & Poors, along with Sovereign ratings, CDS spreads and credit watches.

b) Group limits placed on institutions within the same group and not separate for each institution. The group limit will be the highest individual credit criteria for the group.

c) An institution will never have a higher credit rating than the sovereign country it operates within. If the sovereign is downgraded below the rating of an institution, the institution is downgraded to the same level.

d) Duration limits with part nationalised is 2 years.

e) Use of the top 5 Building Societies is ranked using the management expenses and asset size ranking.

f) The Head of Finance & Resources be given delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Capita Assets Services (the Council's advisors) or from another reliable market source.

The DCLG provides criteria for specified investments with all other investments being non-specified. The following principles are applied to their use.

a) Only the top five building societies (with the exception of Nationwide Building Society) and investments over a 1 year duration with a credit worthy institution will be non-specified.

b) Funds will be invested short term (up to one year) so that funds are available to invest when rates increase.

c) The use of an additional £3m core cash deposits for greater than one year (bringing maximum total long term investments to £8m) if rates are at a premium over predicted base rates and funds are available for the term, the potential to invest within property funds.

d) The use of enhance cash funds and Money Market Funds which are AAA rated funds. These funds spread the risk over many counterparties and funds may be withdrawn by giving a short notice period.

e) The use of overseas banks to be included which are on Capita Asset Services counterparty list and who’s country sovereignty rating is the same or higher than the UK.

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

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

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.
A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

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

	*** Minimum credit criteria / colour band**	**** Max % of total investment s/ £ limit per institution**	**Max. maturity period**
Debt Management Account Deposit Facility (DMDAF) – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating		2 years
UK Government Treasury blls	UK sovereign rating		2 years
Bonds issued by multilateral development banks	UK sovereign rating		6 months
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid

Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	2 years
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour		Up to 2 years Up to 2 years Up to 2 years Up to 1 year Up to 6 Months Up to 100 days Top 5 Building societies only
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour		Up to 2 years Up to 2 years Up to 2 years Up to 1 year Up to 6 Months Up to 100 days Top 5 Building
Corporate bond funds			
Gilt funds	UK sovereign rating		
Property funds			

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

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Capita Green Rating	In-house

Term deposits with nationalised banks and banks and building societies

	*** Minimum Credit Criteria**	**Use**
UK part nationalised banks	Capita Blue Rating	In-house
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+	In-house

Collateralised deposit (see note 2)	UK sovereign rating	In-house

Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	In-house
UK Government Gilts	UK sovereign rating	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house buy and hold
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In-house buy and hold
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold
Treasury Bills	UK sovereign rating	In house

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Capita Yellow Rating	In-house
2. Money Market Funds	Capita Yellow Rating	In-house
3. Enhanced Money Market Funds with a credit score of 1.25	Capita Dark Pink Rating	In-house
4. Enhanced Money Market Funds with a credit score of 1.5	Capita Light Pink Rating	In-house
5. Bond Funds	AAA	In-house
6. Gilt Funds	AAA	In-house

NON-SPECIFIED INVESTMENTS A maximum of 25% will be held in aggregate in non-specified investment

1. Maturities of ANY period

	*** Minimum Credit Criteria**	**Use**
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Capita Green Rating	In-house
Term deposits with unrated counterparties : any maturity	Top five Building Societies based on a combination of Asset size and Man Exp	In-house
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	UK sovereign rating	In-house
Commercial paper other		In-house
Corporate bonds	* Short-term __, Long-term __, Viability __, Support __	In-house
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	UK sovereign rating	In-house
Property fund: ***the use of these investments would constitute capital expenditure***	--	In house

2. Maturities in excess of 1 year

	*** Minimum Credit Criteria**	**Use**	**Max. maturity period**
Term deposits – local authorities	--	In-house	2 yrs
Term deposits – banks and building societies	Capita Blue Rating	In-house	2 yrs
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	In-house	2yrs
Certificates of deposit issued by banks and building societies	Capita Blue Rating	In-house	2 yrs
UK Government Gilts	UK sovereign rating	In-house	2 yrs

Bonds issued by multilateral development banks	AAA	In-house	2 yrs
Sovereign bond issues (other than the UK govt)	AAA	In-house	2 yrs
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
1. Bond funds	AAA	In-house	2 yrs
2. Gilt funds	AAA	In-house	2 yrs

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.

4.2 Creditworthiness policy

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

- credit watches and credit outlooks from credit rating agencies;
- credit default swap, an insurance policy to cover the lender for the risk of a borrower defaulting on a loan, is monitored to reflect the risk within a counterparty's rating;
- sovereign ratings to select counterparties from only the most creditworthy countries (AA+ or above).

The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments, with the following exceptions:

1. The suggested maximum duration for semi nationalised UK Banks is 1 year. This council's treasury management strategy enables investments with these institutions for up to 2 years, as previously agreed as part of the 2014/15 strategy.

2. The council's treasury management strategy allows the use the top 5 Building Societies (some falling into the 'no-colour' category based on the Capita bandings). Ranking will be based on the management expenses and asset size ranking.

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

- Yellow 5 years
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 2 years (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used (except for the top 5 Building Societies ranked using the management expenses and asset size)

Based on these criteria, the current counterparty list is as follows:

	Maximum Deposit	**Suggested Term**
UK Institutions		
Bank of Scotland Plc	£8m	12 mths
Lloyds Bank Plc	£8m	12 mths
National Westminster Bank Plc	£8m	12 mths
The Royal Bank of Scotland Plc	£8m	12 mths
Coventry BS	£2m	Building Society - 6 mths
Leeds BS	£2m	Building Society - 6 mths
Skipton BS	£2m	Building Society - 6 mths
Yorkshire BS	£2m	Building Society - 6 mths
Close Brothers Ltd	£3m	100 days
MBNA Europe Bank	£3m	100 days
Bank of New York Mellon (International) Ltd	£5m	12 mths
HSBC Bank plc	£5m	12 mths
Standard Chartered Bank	£5m	12 mths
Nationwide BS	£3m	6 mths
Abbey National Treasury Services plc	£3m	6 mths
Barclays Bank plc	£3m	6 mths
Cater Allen	£3m	6 mths
Merrill Lynch International	£3m	6 mths
Santander UK plc	£3m	6 mths
Collateralised LA Deposit*	£5m	60 mths
Debt Management Office	£5m	60 mths
Supranationals	£5m	60 mths
UK Gilts	£5m	60 mths
Overseas Institutions		
Norddeutsche Landesbank Girozentrale	£3m	100 days
Silicon Valley Bank	£3m	100 days
Australia and New Zealand Banking Group Ltd	£5m	12 mths
Commonwealth Bank of Australia	£5m	12 mths
National Australia Bank Ltd	£5m	12 mths
Westpac Banking Corporation	£5m	12 mths
Bank of Montreal	£5m	12 mths
Bank of Nova Scotia	£5m	12 mths
Canadian Imperial Bank of Commerce	£5m	12 mths
Royal Bank of Canada	£5m	12 mths

Toronto Dominion Bank	£5m	12 mths
Nordea Bank Finland plc ~	£5m	12 mths
Pohjola Bank	£5m	12 mths
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	£5m	12 mths
The Hong Kong and Shanghai Banking Corporation Ltd	£5m	12 mths
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	£5m	12 mths
Qatar National Bank	£5m	12 mths
Samba Financial Group	£5m	12 mths
DBS Bank Ltd	£5m	12 mths
Oversea Chinese Banking Corporation Ltd	£5m	12 mths
United Overseas Bank Ltd	£5m	12 mths
Nordea Bank AB	£5m	12 mths
Svenska Handelsbanken AB	£5m	12 mths
Bank of New York Mellon, The	£5m	12 mths
HSBC Bank USA, N.A.	£5m	12 mths
JPMorgan Chase Bank NA	£5m	12 mths
Northern Trust Company	£5m	12 mths
State Street Bank and Trust Company	£5m	12 mths
U.S. Bancorp	£5m	12 mths
Wells Fargo Bank NA	£5m	12 mths
Landwirtschaftliche Rentenbank	£5m	24 mths
NRW.BANK	£5m	24 mths
Banque et Caisse d'Epargne de l'Etat	£5m	24 mths
Clearstream Banking	£5m	24 mths
Bank Nederlandse Gemeenten	£5m	24 mths
Nederlandse Waterschapsbank N.V	£5m	24 mths
Macquarie Bank Limited	£3m	6 mths
BNP Paribas Fortis	£3m	6 mths
KBC Bank NV	£3m	6 mths
National Bank of Canada	£3m	6 mths
Danske Bank	£3m	6 mths
BNP Paribas	£3m	6 mths
Credit Agricole Corporate and Investment Bank	£3m	6 mths
Credit Industriel et Commercial	£3m	6 mths
Credit Agricole SA	£3m	6 mths
Societe Generale	£3m	6 mths
BayernLB	£3m	6 mths
Deutsche Bank AG	£3m	6 mths
Landesbank Baden Wuerttemberg	£3m	6 mths
Landesbank Berlin AG	£3m	6 mths
Landesbank Hessen-Thueringen Girozentrale (Helaba)	£3m	6 mths
ING Bank NV	£3m	6 mths
DnB Bank	£3m	6 mths
Arab National Bank	£3m	6 mths
Riyad Bank	£3m	6 mths
Skandinaviska Enskilda Banken AB	£3m	6 mths
Swedbank AB	£3m	6 mths
Credit Suisse AG	£3m	6 mths

UBS AG	£3m	6 mths
Citibank International Plc ~	£3m	6 mths
Credit Suisse International ~	£3m	6 mths
Goldman Sachs International ~	£3m	6 mths
Goldman Sachs International Bank ~	£3m	6 mths
Morgan Stanley & Co. International plc ~	£3m	6 mths
Sumitomo Mitsui Banking Corporation Europe Ltd ~	£3m	6 mths
UBS Ltd ~	£3m	6 mths
Bank of America, N.A.~	£3m	6 mths
BOKF, NA	£3m	6 mths
Citibank, N.A. ~	£3m	6 mths
Money market Funds AAA Rated	£8m	60 mths
Cash Enhanced Funds AAA Rated	£8m	60 mths

As well as limits on the amount of funds that can be placed with individual counterparties, Capita would suggest imposing group limits. The group limit should be equal to the individual limit of one counterparty within the same group

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

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. A credit default swap is an insurance policy to cover the lender for the risk of a borrower defaulting on a loan. Monitoring this market, the credit risk of any particular counterparty can be assessed and appropriate action can be taken to reflect this risk within counterparty's rating. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown above at 4.2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Capita Asset Services has revised its Interest Rate Forecast. Previously, it was thought that rates would increase in June 2015, however it looks like this will now be either late 2015 or early 2016. This has reduced investment rates. Current investment rates are as follows:

• Instant Access	0.40%
• 3 months	0.50%
• 6 months	0.65%
• 1 year	0.95%
• 2 years	1.25%
• 5 years	1.85%

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: -

Maximum principal sums invested > 364 days			
	2015/16 £000	**2016/17 £000**	**2017/18 £000**
Principal sums invested > 364 days	8,000	8,000	8,000