

Basingstoke and Deane Borough Council

**TREASURY MANAGEMENT STRATEGY STATEMENT
AND
THE INVESTMENT STRATEGY
FOR 2016/17**

Contents:

1. Background and Context
2. Risk Management Assessment
3. Interest Rate Forecasts
4. Overall Resources and the Investment Portfolio
5. The Annual Investment Strategy for 2016/17
6. The Borrowing Requirement and Strategy
7. Prudential Indicators
8. Performance Monitoring and Reporting
9. Training
10. Use of Consultants/Treasury Advisors

1. Background Information

1.1 This strategy statement has been produced in accordance with:

- i) The council's Treasury Management Policy Statement.
- ii) The latest Code of Practice on Treasury Management published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- iii) The Local Government Act 2003 and the CIPFA Prudential Code.
- iv) The council's constitution which requires the annual production of a Treasury Management Strategy Statement for the forthcoming year.
- v) The Government Department guidance on local government investments which requires the production of an Annual Investment Strategy.

1.2 The Council's Treasury Management Strategy is undertaken within the following context:

- i) The Local Government Act 2003 introduced a prudential capital system from April 2004 which gave councils greater freedom to borrow to finance capital expenditure within prudential limits. From April 2004 the types of investments allowed are subject to Government Department guidance.
- ii) The level of the council's investments is one of the highest of all district authorities and is likely to remain so for the foreseeable future. The council can therefore take a longer term view on investment decisions.
- iii) The income generated from investments is significant to the council and supports the cost of services. The Medium Term Financial Forecast assumes that between £3.2 million and £3.7 million per annum of interest and investment income will be available to support the revenue budget over the medium term period.

2. Risk Management Assessment

2.1 Treasury management involves the management of risk as no treasury management activity is without some risk.

2.2 Due to the size, complexity and importance of the income generated from treasury management activities it is important that all associated risks are assessed and managed.

2.3 The main risks associated with treasury management are as follows:

- i) **Credit and counterparty risk** (risk to capital) – the risk that a third party will fail to meet its contractual investment obligation resulting in a loss of the council's capital investment or the risk that there will be a permanent reduction in the capital value of the investment.

- ii) **Liquidity risk** – the risk that the council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or losses upon disposal of tradable securities.
- iii) **Market or interest rate risk** – the risk that fluctuating interest rates will have an adverse impact on the council's investment income or the value of its investments.
- iv) **Other risks** – this includes risks associated with cash management, legal requirements and fraud.

2.4 These risks are managed as follows:

i) Credit and Counterparty Risk (risk to capital)

Wherever possible the council will attempt to externalise the management of credit risk through the use of pooled funds and fund managers who have the required knowledge, experience and resources needed to assess and monitor credit risk effectively.

For any remaining internally managed credit risk the council's exposure to this risk is controlled by limiting the maximum sum invested with any single counterparty and by restricting investments to only those counterparties considered to be of high credit quality, as agreed in the council's Treasury Management Practices.

The Council's treasury advisors (Arlingclose Ltd) provide advice on the security of the council's investments which includes credit ratings and other factors such as sovereign guarantees, country of origin, credit default swaps, share prices and market sentiment.

The assessment of security also includes credit ratings produced by the international credit rating agencies which are used throughout the banking and investment industry. Credit ratings are continuously monitored and any changes are reflected in the council's investment criteria.

The market prices of the council's tradable investments are also monitored as these give an indication of market sentiment which can include credit concerns.

If the credit rating of a counterparty or a security held by the council is downgraded with the result that it no longer meets the council's minimum acceptable credit quality or other factors give cause for serious concern then the counterparty will be withdrawn from the council's investment criteria list and potential opportunities to dispose of the security will be investigated.

The council requires the necessary flexibility in its investment strategy to enable it to move a proportion of the portfolio into safer investment instruments during times of general concern about credit risk.

ii) Liquidity Risk

This risk is managed by maintaining a minimum proportion of investments in the short term for cash flow purposes and by setting a maximum amount that can be invested long term (more than 364 days).

When the council is using long term investments it sets limits on the maximum amount that can be invested in each future year to ensure that the maturity structure for its investments results in a significant amount of investments maturing each year which can be used (rather than being re-invested) if required for short term cash requirements.

The council also has the option to borrow short term funds in order to meet its commitments if necessary.

iii) Market or Interest Rate Risk

The Treasury Management Strategy attempts to control interest rate risk by spreading investments across different financial instruments and for different time periods.

The council uses a mix of instruments in order to spread the risk and reduce the overall volatility. Limits are set on the maximum amount in each type of investment.

Having a significant proportion of the council's investments in long term fixed rate instruments enables the council to lock into guaranteed investment returns for years to come and provides a stable and known amount of income.

A proportion of the council's long term investments is also at variable interest rates and enables the council to benefit from future increases in interest rates by increasing the council's level of income and reducing the negative impact on the investments' market prices.

Internally managed investments that have a fluctuating market price are purchased with the intention that they will be held to maturity ('buy to hold'), thereby reducing the impact of market risk.

In addition the council currently has an interest rate risk reserve (estimated to be £2.0 million as at 31 March 2016) in order to reduce the impact of adverse in-year returns from interest income.

When the council uses investment instruments that could produce negative returns or where the accounting treatment for certain investment instruments does not allow the gains to be treated as income then it will adjust the level of the risk reserve to provide some degree of protection from losses and enable the smoothing out of any adverse or favourable variances against budgeted income.

iv) Other Risks

These risks are managed through the council's adoption of standard Treasury Management Practices (TMPs) which are reviewed annually. These cover all aspects of treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.

All treasury management procedures and transactions are subject to annual inspections by both internal and external auditors.

The council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

The council will ensure that all staff and elected members tasked with treasury management responsibilities will receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

3. Interest Rate Forecast

- 3.1 In order to put an investment strategy into context it is necessary to appreciate the current forecasts for interest rates.
- 3.2 The UK Central Bank Official Rate (base rate) is currently at 0.50%. City forecasters and the council's own treasury advisors (Arlingclose Ltd) are forecasting that the Bank of England will begin to raise rates during 2016/17, but that the pace of any subsequent increases will be gradual. The independent average of forecasts is that the official rate will average 0.80% in 2016, 1.40% in 2017 and 2.10% in 2018.
- 3.3 The council's advisors' forecasts for interest rates are shown below:

Arlingclose's Forecast for Interest Rates (November 2015)

	Official Bank Rate			Longer Term Rates (5yr Gilts)		
	Upside Risk %	Central Case %	Downside Risk %	Upside Risk %	Central Case %	Downside Risk %
Mar-16	0.25	0.50	0.00	0.50	1.55	-0.45
Jun-16	0.25	0.50	0.00	0.50	1.60	-0.55
Sep-16	0.25	0.75	-0.25	0.50	1.70	-0.60
Dec-16	0.25	0.75	-0.25	0.55	1.80	-0.70
Mar-17	0.25	1.00	-0.50	0.55	1.90	-0.80
Jun-17	0.25	1.00	-0.50	0.55	2.00	-0.90
Sep-17	0.25	1.25	-0.75	0.55	2.10	-1.00
Dec-17	0.25	1.25	-0.75	0.60	2.20	-1.10
Mar-18	0.50	1.50	-1.00	0.60	2.25	-1.15
Jun-18	0.50	1.50	-1.00	0.60	2.30	-1.20
Sep-18	0.50	1.75	-1.25	0.60	2.35	-1.25
Dec-18	0.50	1.75	-1.25	0.60	2.35	-1.25

3.4 The forecasts are based on the following assumptions:

- i) Risks remain weighted to the downside and a slow rise in the Bank Rate is projected. The future level for the Bank Rate will be lower than the previous norm and will be between 2% and 3%.
- ii) Medium term gilt yields are projected on a shallow upward path in the medium term with continuing concerns about the Eurozone, emerging markets and other geo-political events weighing on risk appetite, while inflation expectations remain subdued.

4. Overall Resources and the Investment Portfolio

- 4.1 The council's Balance Sheet as at 31 March 2015 shows that it had overall net resources of approximately £380 million. This included £240 million of investment property and £168 million of cash resources in the form of long and short term investments.
- 4.2 The council's Medium Term Financial Forecast estimates that the council will have cash resources of £155 million at the beginning of 2016/17. The latest forecast is for this to increase by £15 million in the early part of the year before returning to £158 million at the end of the year. This results in an average balance for the year of £166 million and this is expected to generate £3.2 million of interest income in 2015/16.
- 4.3 The council's existing investment portfolio reflects the effect of previous treasury management strategies. Investments have been made for a combination of short and long term periods using different investment instruments.
- 4.4 A breakdown of the forecast investment portfolio position as at 31 March 2016 shows total investments of £155 million (at cost) as below:

Instruments	£'m	%	Maximum Limit
Government Gilts	59.0	38%	95%
Treasury Bills	10.0	6%	95%
Supranational Bonds	20.0	13%	£50m
Local Authority Deposits/Bonds	17.0	11%	£40m
Money Market Funds	3.0	2%	£25m
Short Term Cash Funds	15.0	10%	£15m
Bank Deposits	1.0	1%	£15m
Diversified Credit Funds	30.0	19%	£50m
Total Investments	155.0	100%	

- 4.5 The following table summarises the limits and ranges that the portfolio currently operates within and where the portfolio is forecast to be at the start of 2016/17.

Type of Investment	2015/16 Limits	Forecast Position at 31/03/16
Long Term	0% to 95%	82%
Short Term	5% to 100%	18%
Fixed Rate	0% to 100%	59%
Variable Rate	0% to 100%	41%
Specific Limits		
Principal Sums > 1 Year	£131m	£73m

5. The Annual Investment Strategy for 2016/17

Background

- 5.1 The Investment Strategy is drawn up in order to comply with central government guidance on Local Government Investments and CIPFA's Treasury Management Code of Practice.
- 5.2 The Investment Strategy sets out the ranges and limits within which the treasury management function can operate. It states which investments the council may use for the prudent management of its treasury balances during the financial year and sets limits on the different types of investment.

Investment Objectives

- 5.3 The investment policy objectives for this council are to invest prudently having regard to all of the associated risks including the security of investments and to maintain liquidity in the investment portfolio to meet the council's spending plans.
- 5.4 Statute maintains that the speculative procedure of borrowing purely in order to invest or lend on and make a return is unlawful and this council will not engage in such activity.

Fund Selection

- 5.5 The selection of collective investment schemes or pooled funds will be determined following a selection process that will include evaluation of certain criteria including the size, duration, credit worthiness of the underlying investments, income distribution levels, past performance, management fees and risk and reward profiles.
- 5.6 The council will seek to ensure that any fund managers used have their own responsible investment policies or have signed up to widely recognised policies such as the United Nations Principles for Responsible Investment.
- 5.7 Any selection of funds or fund managers by the council would be made with the assistance of its treasury management advisors Arlingclose Ltd and KPMG Investment Advisory.

Counterparty Selection

- 5.8 For in-house specified investments the council has determined that the minimum allowable credit rating for investments that are not with the UK Government or a UK local authority will be a long term rating of : A- (Fitch); A3 (Moody's); A- (Standard & Poor's).
- 5.9 The council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have 'Responsible Investment Policies or Environmental, Social and Governance (ESG) policies' in place prior to investing.
- 5.10 The lowest available counterparty credit rating will be used to determine credit quality, unless an investment specific rating is available.
- 5.11 In the event that the credit rating of the council's contracted provider of banking services or any of its current overnight call accounts falls below the council's minimum credit rating criteria the bank will continue to be used for business continuity and short term liquidity requirements (overnight and weekend) and the council will ensure that balances are kept at the minimum amount practicable.
- 5.12 Currently the council's banking services are provided by HSBC Bank Plc.
- 5.13 For long term investments with other UK local authorities the council will consider their financial strength by assessment of their financial statements and other external indicators where available.
- 5.14 For externally managed investments minimum credit ratings shall be determined by the fund managers as part of their own investment policy and this policy will be considered fully by the council as part of the fund selection process prior to investment in any fund.
- 5.15 The council understands that credit ratings are not perfect predictors of investment default. Full regard will therefore be given to other available information on credit quality including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 5.16 All credit ratings and other factors detailed above are monitored in-house and by Arlingclose Ltd (the council's treasury advisors) and the council is alerted to any changes.
- 5.17 The council will consider the use of counterparties outside of the United Kingdom where the country of origin has a sovereign rating of not lower than AA+ or equivalent. The council may also have exposure to non-UK investments indirectly through the use of money market funds and collective investment funds.

Investment Balances / Liquidity of Investments

- 5.18 Based on cash flow forecasts, the council anticipates its fund balance at the end of 2016/17 will be £158 million. Of this, £10 million is required for cash flow requirements. This would leave £148 million available for short and long term investment. The minimum percentage of its overall investments that the council will hold in short term investments is 5% (estimated to equate to £8 million in 2016/17).

- 5.19 Giving due consideration to the council's level of balances over the next three years, the need for liquidity and its spending commitments, the council has determined that £141 million of its overall fund balances could be prudently committed to longer term investments (i.e. those with a maturity exceeding 364 days) in 2016/17.
- 5.20 Where investments are made in longer term instruments, the council will maintain liquidity by spreading the investments over future years ensuring that significant amounts mature each year.

Allowable Investment Types for 2016/17

- 5.21 In deciding which types of investment to use the council has regard to its treasury management advisors. This year's strategy has been drawn up following a review by the council's advisors (Arlingclose Ltd) in 2015/16 which assessed the risks and returns of the different instruments used.
- 5.22 The investment types that this council will allow to be used for new investment in 2016/17 are as follows and are categorised under the headings of specified and non-specified in accordance with the DCLG's statutory guidance:

Specified Investment Instruments (maximum period 1 year)

Bank and building society overnight call account deposits
Reverse repurchase agreements with banks and building societies (subject to minimum quality of collateral)
Loans to UK local authorities
UK treasury stock (Gilts)
Treasury Bills
Money market funds
Debt Management Agency Deposit Facility

Non-specified Investment Instruments

Bank and building society overnight call account deposits
Loans to UK local authorities up to 5 years
Bonds issued by UK local authorities up to 10 years
UK treasury stock (Gilts) up to 10 years
Supranational bonds up to 10 years
Collective investment schemes (pooled funds) including: short term cash; and diversified credit funds.
Reverse repurchase agreements with banks and building societies up to 3 years (subject to minimum quality of collateral)

- 5.23 All investments will be denominated in pounds sterling.
- 5.24 For Specified Investments the Authority defines "high credit quality" organisations and securities as:
- UK Government
 - UK Local Authorities
 - AAA rated Supra-national bonds
 - Constant Net Asset Value money market funds

- Banks and building societies 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.

- 5.25 The code requires the council to state its position regarding the use of derivative investments. The council does not intend to use standalone financial derivatives directly. However, the use of derivatives by fund managers or collective investment schemes (pooled funds) is permitted.
- 5.26 The council will allow all previously purchased investments to be held during 2016/17 which are a result of investment decisions made under an earlier year's approved strategy.
- 5.27 The council will allow the existing fixed deposit with Lloyds Bank to continue because it relates to the council's participation in the Local Authority Mortgage Scheme (LAMS). There will be no new investment in the scheme because it has been replaced by the Government's Help to Buy Scheme.
- 5.28 For each type of investment that might be used during 2016/17 the maximum amounts allowed as a percentage of the overall portfolio are as follows:

LIMITS FOR EACH TYPE OF INVESTMENT

Type of Investment	Expected 2016/17 % age of Portfolio	Counter-party Limit 2016/17	Maximum Limit £'s/ % age of Portfolio
Government Gilts	36%	None	95%
Treasury Bills	1%	None	95%
H M Treasury (DMADF)	0%	None	100%
Supranational Bonds	12%	£20m	£50m
Local Authority Loans/Bonds	10%	£5m	£40m
Money Market Funds	12%	£5m	£25m
Collective Investment: Short Term Cash Funds	9%	£5m	£15m
Collective Investments: Diversified Credit & Bond Funds ¹	18%	£25m	£50m
Bank and Building Society Repurchase Agreements ²	0%	£10m	£25m
Bank Overnight Call Accounts ²	1%	£5m	£15m
Bank Fixed Loans (LAMS)	1%	£5m	£5m

¹Counterparty limit per fund.

²Includes a £20 million limit on each allowable foreign country.

- 5.29 For bank and building society investments a list of counterparties will be chosen in conjunction with the council's treasury advisors and will be approved by the Chief Finance Officer. A group of banks under the same ownership will be treated as a single organisation for counterparty limit purposes.

6. Borrowing Requirement and Strategy for 2016/17

- 6.1 The council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement. This council's Capital Financing Requirement is zero. Councils with borrowing requirements are required to make provision within their revenue budgets for the redemption of their debts. This provision is called the Minimum Revenue Provision. As the council's Capital Financing Requirement is estimated to be zero at 31 March 2016 there is currently no requirement to make a Minimum Revenue Provision.
- 6.2 Although the council is a major investor it is occasionally necessary to borrow on a short term basis for cash flow reasons. All borrowing during 2016/17 will be temporary (i.e. for less than 365 days). The council has no plans or intentions to carry out any long term borrowing during 2016/17.
- 6.3 The council has however taken steps to secure preferential borrowing rates (called the preferred certainty rate) from the PWLB in case the borrowing position changes.

7. Prudential Indicators

- 7.1 Part 1 of the Local Government Act 2003 established a duty for the council to determine and keep under review how much money the council can afford to borrow for capital expenditure. This, together with the relevant regulations, introduced the new prudential capital finance system which replaced the previous capital control system from April 2004.
- 7.2 The key feature of the system is that local authorities are free to determine their own levels of affordable borrowing (subject exceptionally to any national limits imposed) in support of their capital expenditure plans.
- 7.3 The prudential capital finance regulations specify that local authorities must have regard to the "Prudential Code for Capital Finance in Local Authorities" issued by CIPFA when setting and reviewing their affordable borrowing limit.
- 7.4 The objectives of the CIPFA Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

- 7.5 The recommended prudential indicators for 2015/16 to 2018/19 are categorised by type of indicator and are as follows:

Capital Expenditure Indicators

- 7.6 The **total capital expenditure** indicator is taken from the proposed capital programme detailed in the budget report plus any treasury management investments which are deemed to count as capital expenditure under the prudential code.

	Revised Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
	£'000	£'000	£'000	£'000
Capital Programme	7,868	11,962	9,881	7,331
Capital Investments	0	0	0	0
Total Capital Expenditure	7,868	11,962	9,881	7,331
Financing:				
Capital Receipts	5,134	5,255	5,099	4,125
Grants and Contributions	1,834	2,016	1,682	1,391
Revenue Contributions	900	4,691	3,100	1,815
	7,868	11,962	9,881	7,331
Capital Financing Requirement	0	0	0	0

- 7.7 The **capital financing requirement** indicator is a measure of the council's underlying need to borrow for a capital purpose taken from the balance sheet. The council is debt free and this indicator is therefore nil. The proposed future capital programme will be financed without borrowing and therefore this indicator does not change. This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits.

Affordability Indicators

- 7.8 The key indicator of affordability for the council to consider in setting the capital programme is the impact on the council tax that will result. This council has been debt free since April 1995 and the capital expenditure and financing proposals detailed in the budget report are based on the continuation of this policy. The proposed capital programme is therefore fully financed from revenue contributions, revenue and capital reserves and external contributions with no requirement for external borrowing.

Affordability Indicators	Revised Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
	£'000	£'000	£'000	£'000
Additions to Capital Programme	-2,301	3,576	4,588	4,762
Incremental Impact of New Capital Investment Decisions on the Council Tax	-£0.71	£1.08	£1.66	£1.85
Ratio of Financing Costs to Net Revenue Stream	-22%	-20%	-31%	-33%

- 7.9 The **estimate of the incremental impact of the new capital investment decisions on the council tax** indicator shows the revenue impact of the new schemes added to the proposed capital programme. The impact is measured on a band D council tax payer. For this council it represents the loss of investment income by spending available resources rather than the costs of any borrowing.
- 7.10 The **ratio of financing costs to net revenue stream** indicator is used to show the change over time in the level of debt financing costs (net of investment income) compared to the council's net income from council tax payers and government grant. For this council the ratio is negative as investment income significantly exceeds the financing costs associated with temporary cash flow borrowing. It does however indicate that at least 20% of the council's net operating expenditure is supported by investment income.

External Debt Indicators

- 7.11 The external debt indicators relate to the amount that the council can prudently borrow.

External Debt Indicators	Revised Estimate	Estimate	Estimate	Estimate
	2014/15	2015/16	2016/17	2017/18
Authorised Limit for External Debt	£50m	£50m	£50m	£50m
Operational Boundary for External Debt	£25m	£25m	£25m	£25m

- 7.12 Under section 3(1) of the Local Government Act 2003 the council is required to set an **authorised limit for external debt**. This limit is a statutory limit and is gross of investments. For this council represents the maximum limit for external temporary borrowing for cash flow and treasury management purposes and for any possible finance lease "borrowing". The limit is based on a prudent but not worse case estimate with sufficient headroom to allow for operational management.
- 7.13 To support day to day treasury management activity it is recommended that Council approve an authorised borrowing limit of £50 million for 2016/17. This is to enable possible short term cash flow management and not to provide funding for capital expenditure.
- 7.14 The **operational boundary for external debt** is based on the same estimates as the authorised limit for external debt but represents the estimate of normal activity without the additional headroom included in the authorised limit.
- 7.15 The code of practice specifies that for external borrowing to be prudent and sustainable it should be used over the medium term only for capital purposes. This is demonstrated by ensuring that, except in the short term, net external borrowing should not exceed the total Capital Financing Requirement in the previous year plus the estimates of any additional Capital Financing Requirements for the current and the next two financial years. No medium term external borrowing is proposed and therefore this requirement is met.
- 7.16 The revised code of practice requires councils to have an indicator identifying the differences between **gross debt and the Capital Financing Requirement (CFR)**. However, because this council's gross debt and the CFR are both zero there is no difference to identify.

Treasury Management Indicators

- 7.17 These indicators are based on estimates of the council's total resources and estimated cash flow requirements. The council follows best practice and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. Adopting the code of practice is one of the indicators.
- 7.18 In addition to the limits set for each type of investment the Prudential Code requires the setting of specific indicators for treasury management. The indicators for 2015/16 to 2018/19 are as follows:

Treasury Management Indicators	Revised 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
<u>Upper Limits</u>				
Fixed Rate Exposure - as %age	100%	100%	100%	100%
Variable Rate Exposure - as %age	100%	100%	100%	100%
Principal Sums invested over 364 days	£138m	£141m	£131m	£125m
<u>Maturity of Investments (maximum per year)</u>				
Years 1 to 5	£25m			
Years 6 to 10	£15m			

- 7.19 The **upper limit on fixed rate exposure** indicator represents the maximum level (as a percentage) of the council's investments that will be invested in fixed interest instruments. The **upper limit on variable rate exposure** indicator represents the maximum level of the council's investments that will be invested in variable rate instruments. This has been set to ensure that the council is not exposed to interest rate falls which could adversely impact on the revenue budget. These limits are designed to provide the necessary flexibility within which decisions will be made for new investments; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the investment strategy.
- 7.20 This means that fixed rate investments will be managed within a range of 0-100% of total investments and variable rate investments will be managed within a range of 0-100%. These indicators allow the council to manage the extent to which it is exposed to changes in interest rates.
- 7.21 The **upper limit on principal sums invested for periods longer than 364 days** indicator sets the maximum total value of investments made for periods of 1 year and beyond.
- 7.22 The **upper limits for maturity of investments** indicator sets the maximum amount of investments fixed in each year beyond 1 year. This helps to ensure a balanced maturity profile and reduces the risk of being forced to realise an investment before it reaches maturity for cash flow reasons.

Monitoring and Revision of Prudential Indicators

- 7.23 These prudential indicators will be monitored throughout the year by the Head of Resources (Section 151 Officer) and will be reported quarterly to the Audit and Accounts Committee and half-yearly to Cabinet and Council. Any revision of the indicators required will be submitted to the Council for approval.

8. Investment Performance Monitoring and Reporting

- 8.1 Performance of the council's investments will continue to be monitored monthly and will be reported quarterly to the Audit and Accounts Committee. Half year and outturn reports on treasury management activities and performance will also be prepared for the Cabinet and Full Council.
- 8.2 Following the suspension of treasury management performance targets the council now participates in quarterly portfolio benchmarking provided by its treasury advisors Arlingclose. This benchmarking includes measures of the level of risk taken and the corresponding returns. Results of the benchmarking exercise are included in all of the reports detailed above.

9. Training

- 9.1 The Treasury Management Code of Practice requires the Head of Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the function, have access to appropriate training relevant to their needs and understand fully their roles and responsibilities.
- 9.2 Treasury workshops are provided for members of the Audit and Accounts Committee and are open to all members of the council. The workshops are delivered by a combination of external training providers, council officers and the council's treasury advisors.
- 9.3 Officers responsible for treasury management attend external workshops and seminars as part of their continued professional development.

10. Use of Investment Consultants/Treasury Advisors

- 10.1 The council has contracted Arlingclose Ltd. as on-going treasury advisors (re-tendered every three years). Under the contract Arlingclose provide the following services:
- Advice on counterparty selection and creditworthiness
 - Assistance in compliance with codes of practice
 - Economic and interest rate forecasts
 - Strategy and review meetings
 - An annual report on the council's investment strategy and portfolio
 - Advice and guidance on treasury management issues
 - Benchmarking and performance monitoring
 - Seminars and training events
- 10.2 Subsequent to KPMG Investment Advisory's investment review and asset allocation advice in 2013/14 the council has also contracted them to provide on-going monitoring services for the externally managed collective investment schemes (pooled funds) that are used by the council.

ANNEX A – Risks with Non-Specified Investments

In deciding which type of non-specified investment instruments to use the reasons and associated risks were assessed and are detailed below:

<u>Investment Type</u>	<u>Why use it?</u>	<u>Associated risks?</u>
Fixed deposits with UK local authorities with maturities greater than 1 year	<p>High credit quality.</p> <p>Certainty of rate of return over period invested which aids forward planning.</p> <p>No movement in capital value of deposit despite changes in interest rate environment.</p>	<p>Illiquid: cannot be traded or repaid prior to maturity.</p> <p>Return will not increase if interest rates rise after making the investment.</p> <p>Returns are lower than comparative investments with banks and building societies.</p>
Reverse Repurchase Agreement (Repo)	<p>Investment is secured with collateral. Quality of collateral can be specified prior to agreement.</p> <p>Tri-party repos involve an agent who values and manages the collateral during the time of the agreement.</p> <p>Certainty of rate of return.</p>	<p>Collateral needs to be monitored to ensure its value remains adequate for security of the loan.</p> <p>Collateral received in the event of a default could be subject to potentially negative market conditions if not sold immediately.</p>
Gilts (UK sovereign bonds). Custodial arrangement required prior to purchase	<p>Liquid, unlike fixed deposits.</p> <p>Most secure asset class.</p> <p>Potential for capital gain through appreciation in value if sold before maturity.</p>	<p>'Market or interest rate risk': Yield subject to movement during life of bond which could negatively impact on price of the bond.</p>
Local Authority Bonds Custodial arrangement required prior to purchase	<p>If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt.</p> <p>High credit quality.</p>	<p>Scarcity of supply.</p> <p>'Market or interest rate risk': Yield subject to movement during life of bond which could negatively impact on price of the bond. Less liquid than gilts.</p>
Supranational Bonds Custodial arrangement required prior to purchase	<p>Excellent credit quality.</p> <p>Relatively liquid (not as liquid as gilts).</p> <p>If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt.</p> <p>Potential for capital gain through appreciation in value if sold before maturity.</p>	<p>'Market or interest rate risk': Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss.</p> <p>The price of these bonds is more volatile than gilts.</p>
Short Term Cash Funds Collective Investment Schemes	<p>High credit quality.</p> <p>Liquid, unlike fixed deposits.</p> <p>Likely to provide higher returns than Money Market Funds and short term deposits.</p>	<p>Potential for capital loss.</p> <p>Potentially more volatile than Money Market Funds due to longer maturities of assets held.</p>
Overnight Call Accounts with Banks That are not "High Credit Quality"	<p>Liquidity</p> <p>Day to day operational cash management.</p>	<p>Potential for capital loss mitigated by limited overnight exposure.</p>
Diversified Credit and Bond Funds Collective Investment Schemes	<p>Highly diversified portfolio of credit assets.</p> <p>Liquid, unlike fixed deposits.</p> <p>Likely to provide higher returns than traditional fixed income investments.</p> <p>Can remove interest rate risk to provide positive returns in both rising and falling interest rate environments.</p>	<p>Potential for capital loss.</p> <p>Credit risk; exposure to some sub-investment grade assets.</p> <p>Increased credit risk requires expertise and resources in the management of credit quality.</p> <p>Potential for volatility over the short term.</p>