Public Document Pack

URGENT BUSINESS AND SUPPLEMENTARY INFORMATION

Accounts, Audit and Risk Committee

21 January 2015

Agenda Item Number	Page	Title	Officer Responsible	Reason Not Included with Original Agenda
10.	(Pages 1 - 34)	Q3 Treasury Management Report & Draft Treasury Management Strategy 2015-16	Interim Technical and Project Accountant	Information being finalised at time of agenda dispatch
11.	(Pages 35 - 40)	Parish Councils Grant for Council Tax Reduction Scheme	Head of Finance and Procurement	Information being finalised at time of agenda dispatch

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CHERWELL DISTRICT COUNCIL
Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Statement

2015-16

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 polices, estimates and actuals.

Report 1 - Treasury Strategy including Prudential and Treasury Indicators (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).

Report 2 - A Mid Year Treasury Management Report (if applicable) – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. However, the Accounts Audit and Risk Committee will receive quarterly update reports.

Report 3 - 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 is undertaken by the Accounts Audit and Risk Committee.

1.3 Treasury Management Strategy for 2015-16

The strategy for 2015-16 covers two main areas:

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

Capital Issues

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

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

1.4 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receives appropriate training relevant to their needs and fully understands their roles and responsibilities.

The Council's approach is:

- To identify Members who require training;
- To assess the level of training required and procure training from an external organisation with expertise in this area, including the Council's Treasury Advisor, Capita Asset Services; and
- To monitor the ongoing training needs of Members based on legislative, regulatory and best-practice requirements.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services,Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. Capital Prudential Indicators 2015/16 – 2017/18

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

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. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £'000	2013/14 Actual	2014/15 Latest Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total	7,451	31,914	28,910	2,864	90

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

Capital expenditure £'000	2013/14 Actual	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total	7,451	31,914	28,910	2,864	90
Financed by:					
Capital receipts	-6,585	-26,469	-19,746	-580	-2,258
Capital grants	-539	-389	-375	-375	-375
Reserves funded through Revenue	-327	0	0	0	0
Donated asset Contribution	0	0	0	0	0
External Funding	0	0	-260	0	0
Net financing need for the year	**0**	**5,056**	**8,529**	**1,909**	**-2,543**

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 any other long term liabilities (e.g. PFI schemes, finance leases). 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. The Council currently has £0 of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	**2013/14 Actual**	**2014/15 Latest Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
Capital Financing Requirement					
Total CFR	**-3,152**	**5,056**	**8,529**	**1,909**	**-2,543**
Movement in CFR	**0**	**8,208**	**3,473**	**-6,620**	**-4,452**

Movement in CFR represented by					
Net financing need for the year (above)	0	8,208	3,473	-6,620	-4,452
Less MRP/VRP and other financing movements	0	0	0	0	0
Movement in CFR	**0**	**8,208**	**3,473**	**-6,620**	**-4,452**

2.3 Minimum revenue provision (MRP) policy statement

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

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either*:*

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

- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

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

Repayments included in annual PFI or finance leases are applied as MRP.

The Council has established a company to which it is providing loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party by the Council.

The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2021, with interest paid as per the contract.

Once funds are returned to the Council, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As this is a temporary (7 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan/CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence.

To ensure that any required changes to this approach can be addressed promptly and prudently the Council has adopted a policy providing delegated authority to the Service Director of Resources to defer the charging of MRP in accordance with the Prudential Code and current accounting regulations in the following circumstances:

- There is a separately identifiable project with quantified borrowing costs.
- The period from the projects inception to it becoming operational is significantly in excess of 12 months.
- A business case has been produced incorporating the deferred MRP and capitalised interest which demonstrates that the project is prudent and affordable over its whole life.
- The borrowing and MRP amounts are material, in excess of £250,000 annually.
- The deferred MRP and accumulated interest will be charged to the appropriate revenue account on a prudent basis, once the project is operational.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

2.5 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. The Council is asked to approve the following indicators:

2.6 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.

%	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Non-HRA	0	0.80	3.09	4.34	4.71

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

3 Borrowing

3.1 The council is currently debt free however the capital programme as detailed in section 2 demonstrates that capital resources are diminishing. Future projects may require the need to borrow and for the council to enter into long term debt arrangements.

3.2 The Head of Finance and Procurement will monitor this situation and if and when there is a requirement to borrow outside of the operational and authorised limits as detailed below an updated version of this strategy will be prepared for member approval.

Treasury Indicators: limits to borrowing activity

3.3 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 £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	£15m	£50m	£50m	£50m
Other long term liabilities	£0	£0	£0	£0
Total	**£15m**	**£50m**	**£50m**	**£50m**

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 £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	£20m	£55m	£55m	£55m
Other long term liabilities	£0	£0	£0	£0
Total	**£20m**	**£55m**	**£55m**	**£55m**

3.4 Prospects for interest rates

A more detailed interest rate view and economic commentary is at appendices 5.1 and 5.2 if required

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

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

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

4. Annual Investment Strategy

4.1 Changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support.

More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

4.1 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy.
Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions.

This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

Using the Capita Asset Services ratings service banks' and building societys' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, Council officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Capita Asset Services.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in ***Appendix 3*** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Additions to the Specified and Non-Specified Investments from 2015/16.

Secured Bonds:
These are bonds with banks and building socities where the investment is secured (covered) on the insttitution's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from 'bail-in'. Where the bond issue or collateral upon which the investment is secured has a credit rating, the highest of the issue/collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Unsecured Corporate Bonds:
These will include loans, bonds and commercial paper issued by companies other than banks/building societies and registered providers.

These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. The credit assessment will be made through the credit rating of the bond and the bond issuer as well as other credit metrics such as credit default swaps of the corporate, if available.

Enhanced Money Market Funds and other Pooled Funds:
These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Pooled funds whose value changes with market prices are generally referred to variable net asset value [VNAV] funds) will be considered and evaluated for use for the proportion of the Authority's cash balances which are estimated to be available for longer than 1 year.

The returns from short-dated cash investments with counterparties meeting the Authority's credit criteria is expected to remain very low over the medium term. Enhanced money market funds and bond, equity income and property funds offer enhanced returns over the longer term than is available from short-dated cash investment, but are likely to be more volatile in the short term. These funds allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period (for example property funds may only have one withdrawal date per month or quarter), their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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

All other investments are defined as 'Non Specified'. This category includes investments in the 'BBB+' credit rating category, pooled funds without credit ratings and any investment that has a maturity longer than one year or which the Authority intends to holder for a period longer than one year. Unsecured investments credit rated 'BBB+' will be made for shorter periods than unsecured investments with higher credit ratings.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated 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 supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties.
These colour codes are used by the Council to determine the suggested duration for investments. 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 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks *	yellow	£15m	5yrs
Banks	purple	£15m	2 yrs
Banks	orange	£15m	1 yr
Banks – part nationalised	blue	£15m	1 yr
Banks	red	£15m	6 mths
Banks	green	£15m	100 days
Banks	No colour	Not to be used	

DMADF	AAA	unlimited	6 months
Local authorities	n/a	£5m per auth	5 yrs
Money market funds	AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m per fund	liquid

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1.
There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our 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. 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 government 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 in ***Appendix 4***. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

4.4 Investment Strategy

With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock into higher rates of acceptable risk adjusted returns.

The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

In order to diversify an investment portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels for each counterparty will be set to ensure prudent diversification is achieved.

Money Market Funds (MMFs) operating to a Constant Net Asset Value [CNAV] including Enhanced Money Market Funds (EMMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to mitigate operational risk by utilising more than one MMF.

The Authority will also restrict its exposure to Constant Net Asset Value MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF, as these are funds that are used by investors for liquidity purposes and subject to a high volume of daily trading. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

Investment 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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2014-15 0.50%
- 2015/16 1.00%
- 2016/17 1.50%
- 2017/18 2.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

2014-15	0.50%
2015/16	1.00%
2016/17	2.10%
2017/18	2.60%

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			
£m	**2014-15**	**2015/16**	**2016/17**
Principal sums invested > 364 days	£15m	£15m	£15m

For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.4 Icelandic Bank Investments –The council has received repayment of £5.7m of the initial Capital Investment of £6.5m with the remaining capital balance of £730k currently remaining in Iceland. The interest element attirbuted to the investment made - £624k also currently resides in Iceland.

The Council continues to pursue this with the LGA and Bevan Brittan for the transfer of these funds to the UK. It is too early to provide a definitive policy on how any exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

4.5 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.

Appendix

1. Interest Rate forecasts
2. Economic background
3. Treasury Management practice - Specified and Non Specified investments and limits
4. Approved countries for investments
5. Treasury Management scheme of delegation and the role of the section 151 officer
6. Glossary

Appendix 1: Interest Rate Forecasts 2015-2018

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Appendix 2: Economic Background

UK. After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

Eurozone (EZ). The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

Greece: the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti-austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effect of the likely strengthening of anti EU and anti-austerity political parties throughout the EU is much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti-austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA. The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

China. Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Appendix 3: Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

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	Green	In-house
Term deposits – banks and building societies	Short-term F1, Long-term A, ,Viability BB+	Fund Manager

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	**Use**	**Max £**	**Max. maturity period**
UK part nationalised banks	Green	In-house	**£15m including Investec's limit**	**364 days**
UK part nationalised banks	UK sovereign rating or Short-term F1, Long term A ,Viability BB+	Fund Manager	**Max 15% of fund**	**364 days**

Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Green	In-house and Fund Manager
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	Fund Manager
UK Government Gilts	UK sovereign rating	In house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AA-	In house buy and hold and Fund Manager
Bond issuance 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 and Fund Manager

Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Sovereign bond issues (other than the UK govt)	AA-	In house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager
Corporate Bonds – Secured (i.e. with collateral or other cover)	A	In house buy and hold and Fund Manager
Corporate Bonds - unsecured	AA-	In house buy and hold and Fund Manager
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	AAA	In-house
2. Money Market Funds	AAA	In-house
3. Enhanced Money Market Funds	AA	In-house
4. Pooled Funds such those investing in sovereign bonds, corporate bonds, property funds, equity funds	AA-	In-house

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.

NON-SPECIFIED INVESTMENTS: A maximum of 40% will be held in aggregate in non-specified investment

Maturities of ANY period

	*** Minimum Credit Criteria**	**Use**	**Max % of fund**	**Max. maturity period**
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	270 days
Commercial paper other	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	270 days
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years

	* Minimum Credit Criteria	Use	Max % of fund	Max. maturity period
Bonds – Secured (i.e. with collateral or other cover)	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years
Bonds – Unsecured	Short-term F1, Long-term AA-, Viability BB+	In- house and Fund Manager	15%	2 years
Term Deposits with Banks and Building Societies which meet the Specified Investments criteria	Purple	In- house and Fund Manager	15%	2 years
Term Deposits with Banks and Building Societies which fall in the Non- Specified Investments criteria	Green	In- house and Fund Manager	15%	100 days
Term Deposits with Local Authorities	-	In- house and Fund Manager	10%	2 years
Gilts	UK Sovereign rating	In- house and Fund Manager	25%	10 years
Bonds issued by multilateral development banks	Short-term F1, Long-term AA, Viability BB+	In- house and Fund Manager	15%	5 years
Money Market Funds (MMF) operating on Constant Net Asset Value (CNAV) basis if not credit rated – up to value of 10% of total investment portfolio per MMF	Short-term F1, Long-term AA+, Viability BB	In- house and Fund Manager	20%	-
Enhanced Money Market Funds - up to value of 10% of total investment portfolio per MMF	Short-term F1, Long-term AA+, Viability BB	In- house and Fund Manager	40%	-
Pooled Funds such those investing in sovereign bonds, corporate bonds, property funds, equity funds	Short-term F1, Long-term AA-, Viability BB+	In- house and Fund Manager	15%	2 years
Investment in Share Capital of a wholly owned and /or subsidiary company of the Council	Not applicable	In- house	Not applicable	Not applicable

Appendix 4: Approved countries for investments

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- Belgium
- France

AA-

- Saudi Arabia

Appendix 5: Treasury management scheme of delegation

6.1 Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

6.2 Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

6.3 Accounts Audit & Risk Committee

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

6.4 Role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Appendix 6: Glossary

Asset Class Limits	Limit on the amount of the total portfolio that can be invested an asset class for example credit rated Banks, Money Market Funds unrated Building Societies
Asset Life	The length of the useful life of an asset e.g. a school
Borrowing / Investment Portfolio	A list of loans or investments held by the Council.
Borrowing Requirement	The amount that the Council needs to borrow to finance capital expenditure and manage debt.
Callable deposit	Funds placed with a financial institution without a fixed maturity date (i.e. the money can be 'called' or withdrawn at any time).
Capitalisation direction	Government approval to use capital resources to fund revenue expenditure.
Cash deposits	Funds placed with a financial institution with a fixed maturity date and interest rate.
Certificates of deposits	(CD). CDs evidence fixed maturity time deposits with issuing banks or other deposit-taking institutions. Maturities range from less than a week to five years. They are normally negotiable and enjoy a liquid secondary market. They state the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring early withdrawal penalties.
CIPFA Code of Practice on Treasury Management	A code of practice issued by CIPFA detailing best practice for managing the treasury management function.
Collaterised Deposit	Term deposits with UK institutions where such deposits are secured against a collateral pool comprised of loans made to UK local authorities.
Counterparty	Banks, Building Societies and other financial institutions that the Council transacts with for borrowing and lending.
Credit Arrangements	Methods of financing such as the use of finance leases
Credit Ratings	A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poors to indicate the creditworthiness and other factors of a Governments, banks, building societies and other financial institutions.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office	An agency of the HM Treasury and its responsibilities include debt and cash management for the UK

	Government
Debt Rescheduling	Refinancing loans on different terms and rates to the original loan.
Financial instrument	Document (such as a bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Fitch Ratings	A credit rating agency.
Forward commitment	Written agreement by a lender to advance a loan on a future date at a specified interest rate. It automatically expires if not exercised by the potential borrower.
Gilts	Also known as Gilt-edged Securities. UK central Government debt. It may be dated (redeemable) or undated. Undated gilts are perpetual debt, paying a fixed periodic coupon but having no final redemption date. Gilt yields are conventionally quoted in the UK markets on a semi-annual basis.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
Lender Option Borrower Option (LOBO)	Loans that have a fixed rate for a specified number of years then can be varied by the lender at agreed intervals for the remaining life of the loan.
Limits for external debt	A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the Council could afford.
Liquidity	Access to cash that is readily available.
Lowest Common Denominator	Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the Council's lending list.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Maturity Structure of Borrowings	A profile of the Council's loan portfolio in order of the date in which they expire and require repayment.
Minimum Revenue Provision	The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt.
Money Market Funds	Open ended collective investment fund that invests in highly-liquid short-term financial instruments (with maturities typically 90 days to less than one year).
Moody's	A credit rating agency.

Non Specified Investments	Investments deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during
Portfolio	A number of different assets, liabilities, or assets and liabilities together, considered as a whole. For example, a diversified investment portfolio. An investor in such a portfolio might hold a number of different investment assets within the portfolio, with the objectives of growing the total value of the portfolio and limiting the risk of losses.
Prudential Borrowing	Borrowing undertaken by the Council that does not attract government support to help meet financing costs.
Prudential Code for Capital Finance in Local Authorities	The capital finance system is based on the Prudential Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford.
Prudential Indicators	The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to demonstrate this.
Public Works Loan Board (PWLB)	A central government agency which provides loans to local authorities and other prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow.
Credit Rated	Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors.
Risk Control	Putting in place processes to control exposures to events.
Security	Placing cash in highly rated institutions.
Sovereign debt rating	Assessment of the international rating agencies of the likelihood that a particular country will default on its loans.
Specified Investments	Investments that offer high security and liquidity. They must have a maturity of no longer than 364 days.
Standard and Poors	A credit rating agency.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank

UK Government Investments	Debt Management Office (DMO) deposits and bonds (gilts) for which maturity date at time of purchase is less than 365 days away
Yield	The rate of return on the current market value of an asset or liability, usually expressed as a percentage per annum. For example, today's yield to maturity of a bond measures the total return to an investor in the bond, reflecting both the interest income over the life of the bond and any capital gain (or loss) from today's market value to the redemption amount payable at maturity.

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Cherwell District Council

Accounts, Audit and Risk Committee

21 January 2015

Parish Councils: Council Tax Reduction Scheme

Report of the Director of Resources

This report is public

Purpose of report

To receive the Parish Councils Council Tax Reduction Scheme report.

1.0 Recommendations

The meeting is recommended to consider and note the contents of the report.

2.0 Introduction

2.1 There is a legal requirement for each parish and town council to advise Cherwell District Council of the 2015-16 precept it is levying on it before 1 March 2015.

2.2 The Government changed the way the Council Tax base was calculated two years ago for 2013-14. This resulted in a reduction in the number of properties upon which Council Tax could be charged.

2.3 To offset some of these losses, Cherwell District Council received a grant of £349,487 from Central Government. This was distributed amongst the affected parishes to help to mitigate the potential loss to each Parish or Town area in the District.

3.0 Report Details

3.1 Parish councils received their annual letter regarding Parish Precepts and their grant for Council Tax Reduction Scheme (CTRS) on 18 December 2014. It subsequently came to light that calculations for the Grant for CTRS were not correct. The calculations for 2015-16 and previous years have been reviewed and it is clear that a principle was set in 2013-14 and 2014-15. This was that the same amount of grant be paid annually to Parish Councils unless the total fund available for Cherwell District Council is changed.

3.2 The grants calculated and notified for 2015-16 have not followed this principle and will therefore need to be amended. A revised letter was sent to all parish councils on 9 January 2015.

3.3 The schedule of Parish Grants and Precepts is attached in Appendix 1.

4.0 Conclusion and Reasons for Recommendations

4.1 To receive the Council Tax Reduction Scheme report.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not applicable as the report is for information only. However, members may wish to request further information from officers.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
01295 221731 Nicola.Jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.
Comments checked by: Kevin Lane, Head of Law & Governance
0300 0030107 Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
01295 221731 Nicola.Jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected All wards are affected

Links to Corporate Plan and Policy Framework All corporate plan themes.

Lead Councillor None

Document Information

Appendix No	**Title**
Appendix 1	Schedule of Parish Grants and Precepts
Background Papers	
None	
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	2013-14 FINAL			2014-15 FINAL		2015-16 DRAFT			
	Tax Base 2013-14	GRANT 2013-14 £	TOP UP 2013-14 £	Tax Base 2014-15	GRANT 2014-15 £	Tax Base 2015-16	GRANT 19-12-14 2015-16 £	GRANT 09-01-15 2015-16 £	GRANT difference £
Adderbury	1,125	1,489.83	236.17	1,125	1,489.83	1,139.3	4,836.00	1,489.83	(3,346.17)
Ambrosden	581	174.28	27.63	586	174.28	591.9	1,409.00	174.28	(1,234.72)
Ardley	249	380.31	60.29	254	380.31	253.8	661.00	380.31	(280.69)
Arncott	268	1,037.42	164.45	368	1,037.42	370.8	2,471.00	1,037.42	(1,433.58)
Banbury	12,567	223,396.19	26,450.34	12,778	223,396.19	12,962.7	171,820.00	223,396.19	51,576.19
Barford	255	28.32	4.49	256	28.32	256.8	554.00	28.32	(525.68)
Begbroke	353	72.44	11.49	359	72.44	357.1	811.00	72.44	(738.56)
Bicester	9,576	61,715.79	4,675.51	9,691	61,715.79	10,139.8	63,096.00	61,715.79	(1,380.21)
Blackthorn	141	299.16	47.42	142	299.16	142.9	442.00	299.16	(142.84)
Bletchingdon	319	1,031.34	163.49	328	1,031.34	338.1	2,046.00	1,031.34	(1,014.66)
Bloxham	1,321	1,084.28	171.88	1,348	1,084.28	1,352.7	5,841.00	1,084.28	(4,756.72)
Bodicote	811	738.60	117.08	878	738.60	875.4	4,005.00	738.60	(3,266.40)
Bourton	287	274.41	43.49	289	274.41	297.0	1,077.00	274.41	(802.59)
Broughton	120	263.85	41.83	119	263.85	120.0	862.00	263.85	(598.15)
Bucknell	99	357.03	56.60	102	357.03	102.8	438.00	357.03	(80.97)
Caversfield	437	77.27	12.25	441	77.27	469.1	1,879.00	77.27	(1,801.73)
Charlton on Otmoor	191	94.97	15.05	190	94.97	194.7	237.00	94.97	(142.03)
Chesterton	408	591.57	93.77	551	591.57	345.6	2,465.00	591.57	(1,873.43)
Claydon	135	93.40	14.81	131	93.40	134.1	503.00	93.40	(409.60)
Cottisford	70	0.00	0.00	67	0.00	67.3	207.00	0.00	(207.00)
Cropredy	294	377.16	59.79	298	377.16	294.3	1,553.00	377.16	(1,175.84)
Deddington	872	1,745.54	276.70	883	1,745.54	899.6	3,707.00	1,745.54	(1,961.46)
Drayton	86	217.80	34.53	89	217.80	90.7	530.00	217.80	(312.20)
Duns Tew	214	304.62	48.29	226	304.62	232.4	674.00	304.62	(369.38)
Epwell	136	99.06	15.70	137	99.06	137.8	351.00	99.06	(251.94)
Fencot and Murcott	126	21.32	3.38	128	21.32	126.2	216.00	21.32	(194.68)
Finmere	214	0.00	0.00	217	0.00	214.2	443.00	0.00	(443.00)
Fringford	248	617.09	97.82	254	617.09	255.6	1,332.00	617.09	(714.91)
Fritwell	264	439.09	69.61	309	439.09	311.0	1,623.00	439.09	(1,183.91)
Godington	22	0.00	0.00	21	0.00	20.1	22.00	0.00	(22.00)
Gosford and Water Eaton	520	688.19	109.10	526	688.19	531.7	1,792.00	688.19	(1,103.81)
Hampton Gay and Poyle	73	12.95	2.06	78	12.95	74.3	91.00	12.95	(78.05)
Hanwell	123	278.58	44.16	122	278.58	121.9	604.00	278.58	(325.42)
Hardwick with Tusmore	37	0.00	0.00	37	0.00	37.4	0.00	0.00	0.00
Hethe	105	358.27	56.80	106	358.27	106.6	1,109.00	358.27	(750.73)
Hook Norton	879	1,998.46	316.79	884	1,998.46	893.8	3,455.00	1,998.46	(1,456.54)
Horley	158	4.87	0.78	160	4.87	160.8	333.00	4.87	(328.13)
Hornton	160	151.33	23.99	161	151.33	159.3	437.00	151.33	(285.67)
Horton cum Studley	243	20.38	3.23	242	20.38	238.8	582.00	20.38	(561.62)
Islip	310	412.93	65.46	312	412.93	319.6	816.00	412.93	(403.07)
Kidlington	4,571	39,405.34	3,394.41	4,645	39,405.34	4,675.7	31,512.00	39,405.34	7,893.34
Kirtlington	434	368.68	58.44	439	368.68	446.0	1,580.00	368.68	(1,211.32)
Launton	474	636.09	100.83	486	636.09	482.6	1,533.00	636.09	(896.91)
Lower Heyford	211	402.30	63.78	208	402.30	207.0	1,168.00	402.30	(765.70)
Merton	139	0.00	0.00	141	0.00	142.4	247.00	0.00	(247.00)
Middle Aston	65	0.00	0.00	65	0.00	65.3	1.00	0.00	(1.00)
Middleton Stoney	146	91.09	14.44	146	91.09	144.3	505.00	91.09	(413.91)
Milcombe	207	466.83	74.00	215	466.83	236.8	1,554.00	466.83	(1,087.17)
Milton	117	17.90	2.84	117	17.90	120.0	235.00	17.90	(217.10)
Mixbury	116	0.00	0.00	116	0.00	113.6	143.00	0.00	(143.00)
Mollington	221	0.00	0.00	225	0.00	229.8	492.00	0.00	(492.00)
Newton Purcell	38	0.00	0.00	43	0.00	43.9	363.00	0.00	(363.00)
Noke	78	0.00	0.00	77	0.00	77.4	158.00	0.00	(158.00)
North Aston	87	20.71	3.28	93	20.71	91.9	405.00	20.71	(384.29)
North Newington	149	77.70	12.31	148	77.70	148.6	413.00	77.70	(335.30)
Oddington	65	0.00	0.00	65	0.00	65.8	40.00	0.00	(40.00)
Piddington	168	261.02	41.38	167	261.02	167.8	633.00	261.02	(371.98)
Prescote	6	0.00	0.00	6	0.00	6.2	0.00	0.00	0.00
Shenington	213	99.93	15.84	217	99.93	220.3	194.00	99.93	(94.07)
Shipton on Cherwell	138	174.42	27.65	140	174.42	143.0	425.00	174.42	(250.58)
Shutford	198	250.73	39.75	201	250.73	202.6	681.00	250.73	(430.27)
Sibford Ferris	189	46.24	7.33	188	46.24	190.6	600.00	46.24	(553.76)
Sibford Gower	241	192.49	30.51	246	192.49	244.0	959.00	192.49	(766.51)
Somerton	137	44.72	7.08	138	44.72	136.1	429.00	44.72	(384.28)
Souldern	196	98.40	15.60	198	98.40	198.5	714.00	98.40	(615.60)
South Newington	151	157.13	24.91	149	157.13	151.1	448.00	157.13	(290.87)
Steeple Aston	409	696.61	110.42	409	696.61	416.1	1,811.00	696.61	(1,114.39)
Stoke Lyne	98	136.93	21.71	101	136.93	102.9	140.00	136.93	(3.07)
Stratton Audley	201	192.34	30.49	202	192.34	203.6	488.00	192.34	(295.66)
Swalcliffe	104	223.00	35.36	108	223.00	108.5	243.00	223.00	(20.00)
Tadmarton	247	232.20	36.81	250	232.20	248.8	1,186.00	232.20	(953.80)
Upper Heyford	350	1,272.74	201.75	386	1,272.74	372.2	2,923.00	1,272.74	(1,650.26)
Wardington	231	485.91	77.02	230	485.91	228.6	1,743.00	485.91	(1,257.09)
Wendlebury	187	128.69	20.40	189	128.69	187.5	505.00	128.69	(376.31)
Weston on the Green	230	342.16	54.24	235	342.16	243.8	695.00	342.16	(352.84)
Wiggington	104	138.40	21.94	118	138.40	118.5	494.00	138.40	(355.60)
Wroxton	272	296.75	47.04	275	296.75	278.6	909.00	296.75	(612.25)
Yarnton	1,087	1,581.45	250.69	1,034	1,581.45	1,054.6	7,588.00	1,581.45	(6,006.55)
	46,672	349,487.00	38,478.48	47,609	349,487.00	48,253	349,487.00	349,487.00	0.00
		387,965							

Parishes highlightes in bold have submitted grant & precept information to Cherwell (as at [illegible] Jan 2015)

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