Public Document Pack

Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
Executive Director: Douglas Hendry

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4 February 2016

NOTICE OF MEETING

A meeting of the **ARGYLL AND BUTE COUNCIL** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **THURSDAY, 11 FEBRUARY 2016** at **2:00 PM**, or at the conclusion of the Policy and Resources Committee at 10.30am whichever is the later, which you are requested to attend.

Douglas Hendry
Executive Director of Customer Services

BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTERESTS (IF ANY)**

3. **MINUTES** (Pages 1 - 12)

   Argyll and Bute Council held on 21 January 2016

4. **BUDGETING PACK**

   (a) Revenue Budget 2016 - 2017

      i. Introductory Report and Recommendations for Budget papers on Revenue Budget
      ii. Planning Our Future Consultation – Findings Report
      iii. Service Choices – Assessing Equality Impact
      iv. Revenue Budget Overview
      v. Report on Fees and Charges
      vi. Revenue Budget Monitoring 2015-16 as at 31 December 2015
      vii. Report on Financial Risks Analysis
      viii. Report on Reserves and Balances

   (b) Capital Plan 2016 - 2020

      i. Introductory Report and Recommendations for Budget Papers on Capital Plan
      ii. Capital Plan Summary

iii. Corporate Asset Management Strategy
iv. Corporate Asset Management Plan
v. Service Asset Management Plans:
   - Community Services Asset Management Plan
   - Customer Services Asset Management Plan
   - ICT Group Asset Management Plan
   - Development and Infrastructure Asset Management Plan

[The Budgeting Pack of Papers relative for consideration of the foregoing matters was circulated with the Policy and Resources Committee Agenda for 11 February 2016. Please bring these papers with you to this meeting]

5. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 13 - 64)

   Report by Head of Strategic Finance

6. **POLITICAL MANAGEMENT ARRANGEMENTS** (Pages 65 - 68)

   Report by Executive Director – Customer Services

7. **APPOINTMENT OF RECRUITMENT PANEL: POST OF CHIEF EXECUTIVE** (Pages 69 - 70)

   Report by Chief Executive

COUNCIL

All Members

Contact: Hazel MacInnes Tel: 01546 604269

MINUTES of MEETING of ARGYLL AND BUTE COUNCIL held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on THURSDAY, 21 JANUARY 2016

Present: Councillor Len Scoullar (Chair)

Councillor John Armour	Councillor Neil MacIntyre
Councillor Gordon Blair	Councillor Robert G MacIntyre
Councillor Michael Breslin	Councillor Alex McNaughton
Councillor Rory Colville	Councillor James McQueen
Councillor Maurice Corry	Councillor Bruce Marshall
Councillor Robin Currie	Councillor Aileen Morton
Councillor Vivien Dance	Councillor Ellen Morton
Councillor Mary-Jean Devon	Councillor Gary Mulvaney
Councillor George Freeman	Councillor Douglas Philand
Councillor Anne Horn	Councillor Elaine Robertson
Councillor Donald Kelly	Councillor Isobel Strong
Councillor David Kinniburgh	Councillor Sandy Taylor
Councillor John McAlpine	Councillor Richard Trail
Councillor Roderick McCuish	Councillor Dick Walsh
Councillor Alistair MacDougall	

Attending: Sally Loudon, Chief Executive
Douglas Hendry, Executive Director of Customer Services
Cleland Sneddon, Executive Director of Community Services
Pippa Milne, Executive Director of Development and Infrastructure Services
Charles Reppke, Head of Governance and Law
Kirsty Flanagan, Head of Strategic Finance
Angus Gilmour, Head of Planning and Regulatory Services
Fergus Murray, Head of Economic Development and Strategic Transportation
Elaine Garmin, Public Health Specialist, NHS Highland
Craig McNally, Senior Health Improvement Specialist, NHS Highland

Councillor Donald Kelly presented the Council with a Petition containing over 2000 signatures from South Kintyre constituents in respect of proposed cuts to Campbeltown Nursery as part of the Service Choices programme. The Provost accepted the Petition and confirmed that this would be passed to the appropriate department.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Iain Angus MacDonald, Robert E MacIntyre, Iain Stewart MacLean, Donald MacMillan and James Robb.

2. DECLARATIONS OF INTERESTS

Councillor Aileen Morton advised that in respect of item 20 of the agenda (Scotcourt House, 45 West Princes Street and 31 James Street, Helensburgh), she had declared a non-financial interest on this item at the Helensburgh and Lomond Area Committee on 23 November 2016 by reason that she was on the Board of Argyll College. She advised that as she was no longer a member of the Board she would be claiming the dispensation contained at section 5.16 of the Standard Commission's Guidance and Dispensations Note dated December 2010 to allow her to speak and vote on this item.

3. MINUTES

The Minutes of the Meeting of Argyll and Bute Council held on 26 November 2015 were approved as a correct record.

4. MINUTES OF COMMITTEES

(a) **Community Services Committee - 10 December 2015**

The Minutes of the meeting of the Community Services Committee held on 10 December 2015 were noted.

(b) **Policy and Resources Committee - 17 December 2015**

The Minutes of the Meeting of the Policy and Resources Committee held on 17 December 2015 were noted. Arising under item 7 (Street Lighting Innovative Energy Saving Update Report), the Council agreed the recommendation from the Policy and Resources Committee as detailed in the Minute of 17 December 2015.

(c) **Environment, Development and Infrastructure Committee held on 14 January 2016**

The Minutes of the Environment, Development and Infrastructure Committee held on 14 January 2016 were noted. Arising from item 6 (A82/A83 Transport Scotland Update) the Council noted that this request would be considered under item 18 of the Agenda (Notice of Motion Under Standing Order 13).

5. LEADER'S REPORT

The Council considered a report outlining the key activities of the Leader of the Council from 21 November 2015 to 15 January 2016. The report also provided Policy Lead updates in relation to Finance, HR, IT and Governance and Law.

Decision

The Council –

1. Noted the report by the Leader of the Council.

2. Noted that the full Leader's Report Pack would be available in the Leader's Office.

3. Unanimously recorded their thanks and appreciation to Duncan MacIntyre and commended him for his many years of contribution to the Council in a variety of roles.

4. Noted the comments made by Group Leaders; Councillor Donald Kelly, Councillor Sandy Taylor and Councillor Michael Breslin; endorsing recognition of

Duncan MacIntyre's contribution to the Council, and to the people of Argyll and Bute.

5. Agreed that the Provost write to Duncan MacIntyre informing him that his contribution to the Council had been formally acknowledged at the Council meeting and passing on the comments made by Group Leaders.

(Reference: Report by Leader of the Council dated 21 January 2016, submitted)

6. POLICY LEAD REPORTS

(a) **Sustainable Economic Growth (Economic Development, European Affairs, Renewables and Strategic Tourism)**

The Council considered a report by the Policy Lead for Sustainable Economic Growth (Economic Development, European Affairs, Renewables and Strategic Tourism) which outlined activities undertaken within her role between 1 June 2015 and 31 December 2015.

Decision

The Council noted the content of the report.

(Reference: Report by Policy Lead for Sustainable Economic Growth (Economic Development, European Affairs, Renewables and Strategic Tourism) dated 1 January 2016, submitted)

(b) **Education and Lifelong Learning**

The Council considered a report by the Policy Lead for Education and Life Long Learning which outlined the activities undertaken within his role between May and December 2015.

Decision

The Council noted the content of the report.

(Reference: Report by Policy Lead for Education and Life Long Learning dated 7 January 2016, submitted)

7. NHS HIGHLAND DIRECTOR OF PUBLIC HEALTH ANNUAL REPORT 2015

The Council received an informative presentation on the Director of Public Health's Annual Report 2015 by Elaine Garmin, Public Health Specialist. The Annual Report for 2015 focused on the effects of alcohol on health. Members were given the opportunity to ask questions and then the Provost formally thanked Elaine Garmin for her presentation to the Council, and thanked Craig McNally, Senior Health Improvement Specialist, for his attendance.

8. **AUDIT SCOTLAND/ACCOUNTS COMMISSION- STATUTORY REPORT/FINDINGS**

The Council considered a report advising of the Accounts Commission Findings on the Controller of Audit's Statutory Report on the Council and which also advised on the statutory requirements in relation to the Council's consideration of the Commission's findings. The report sought agreement on the development of an improvement plan in relation to these findings.

Decision

The Council -

1. Welcomed the findings, particularly in relation to the progress that the Council has made; the improvements in political and managerial leadership, decision making and scrutiny with a consequent reduction in risk.

2. Welcomed the recommendations to consolidate progress and build on this to ensure a sustainable future particularly at a time of significant financial challenge.

3. Agreed to accept the recommendations and the development of an improvement plan to take forward the Statutory Report and Accounts Commission findings.

(Reference: Report by Chief Executive dated 13 January 2016 and Statutory Report by the Controller of Audit and Accounts Commission Findings, submitted)

9. **REVIEW OF CHARITABLE TRUSTS HELD BY ARGYLL & BUTE COUNCIL**

The Council considered a report recommending that in order that the fund of the registered charity, the Norman Stewart Institute, could be used more effectively and that the trust could achieve its objective, that the Council agree to reorganising the charity by transferring all the funds held to the registered charity, For Bute.

Decision

The Council agreed the proposal to apply to OSCR to reorganise the Charitable Trust, the Norman Stewart Institute (Scottish Charity Number SCO019601) by transferring all funds held to For Bute (Scottish Charity Number SC044153); subject to the proposed recipient charity agreeing to the proposal where required.

(Reference: Report by Executive Director – Customer Services dated January 2016, submitted)

10. **POLITICAL MANAGEMENT ARRANGEMENTS**

The Council considered a report inviting them to make appointments to vacancies which arose on Council Committees and Outside Bodies/Organisations following the resignation of Councillor Duncan MacIntyre in November 2015.

The report also advised of the resignation of Councillor Mary Jean Devon from her role as Policy Lead for Health and Social Care Integration.

Motion

The Council:

a) Notes with regret the resignation of Duncan Macintyre from his role as a Councillor and acknowledges his service to the people of Argyll and Bute;
b) Notes with regret that Councillor Mary-Jean Devon has stepped down from the role of Policy Lead for Health and Social Care Integration, with thanks for her commitment and hard work;
c) Notes the following changes to Policy Lead and Depute appointments:
    - Councillor Maurice Corry as Policy Lead for Health and Social Care Integration
    - Councillor Mary-Jean Devon as sole Depute Policy Lead for Children and Families and Children's Champion
    - Councillor Elaine Robertson as sole Depute Policy Lead for Adult Care
d) Appoints Councillor David Kinniburgh to the position of Depute Provost, in place of Councillor Douglas Philand, with immediate effect;
e) Agrees the following appointments to outside bodies:
    - Councillor Gary Mulvaney to the Convention of Scottish Local Authorities as one of the council's three representatives
    - Councillor Maurice Corry to the COSLA Health and Wellbeing Executive Group
    - Councillor Elaine Robertson to the Argyll Ferry User Group
    - Councillor Alistair MacDougall to the Short Life Working Group – Argyll Islands Task Force
    - Councillor Maurice Corry to the NHS Highland Health and Wellbeing Partnership (in place of Councillor Douglas Philand)
f) Agrees that the current council representation on the Argyll and Bute Health and Social Care Integrated Joint Board should remain in place until 31st March 2016 when, upon the start of a new board term, Councillor Maurice Corry shall replace Councillor Douglas Philand, with all other representatives unchanged (Councillors Devon, Robertson and Horn), with the council giving 28 days' notice of the changes in membership as required;
g) Makes the following appointments to the council's strategic committees:
    - Councillor Maurice Corry to Policy and Resources in place of Councillor Douglas Philand
    - Councillor John McAlpine to Environment, Development and Infrastructure
    - Councillor Maurice Corry to Community Services in place of Councillor Iain Angus Macdonald
    - Councillor Roddy McCuish to Community Services in place of Councillor Donald Kelly
h) Agrees that all other appointments to statutory and outside bodies remain in place;
i) Notes that all appointments take effect immediately, with the exception of changes to the Integrated Joint Board membership as outlined above.

Moved Councillor Dick Walsh, seconded Councillor Ellen Morton

Amendment

The Council:

a) Notes with regret the resignation of Duncan Macintyre from his role as a Councillor and acknowledges his service to the people of Argyll and Bute;

b) Notes with regret that Councillor Mary-Jean Devon has stepped down from the role of Policy Lead for Health and Social Care Integration, with thanks for her commitment and hard work;
c) Notes the following changes to Policy Lead and Depute appointments:
    - Councillor Mary-Jean Devon as sole Depute Policy Lead for Children and Families and Children's Champion
    - Councillor Elaine Robertson as sole Depute Policy Lead for Adult Care
d) Agrees the following appointments to outside bodies:
    - Leader of the largest Opposition Group to the Convention of Scottish Local Authorities as one of the council's three representatives
    - Councillor Maurice Corry to the COSLA Health and Wellbeing Executive Group
    - Councillor Michal Breslin to the Argyll Ferry User Group
    - Councillor Alistair MacDougall to the Short Life Working Group – Argyll Islands Task Force
    - Councillor Maurice Corry to the NHS Highland Health and Wellbeing Partnership (in place of Councillor Douglas Philand)
e) Makes the following appointments to the council's strategic committees:
    - Councillor Maurice Corry to Policy and Resources in place of Councillor Douglas Philand
    - Councillor John McAlpine to Environment, Development and Infrastructure
    - Councillor Roddy McCuish to Community Services in place of Councillor Donald Kelly
f) Agrees that all other appointments to statutory and outside bodies remain in place;
g) Notes that all appointments take effect immediately.

Moved Councillor Sandy Taylor, seconded Councillor Donald Kelly.

The requisite number of Members present required the vote to be taken by calling the toll and Members voted as follows –

Motion	**Amendment**
Councillor Rory Colville	Councillor John Armour
Councillor Maurice Corry	Councillor Gordon Blair
Councillor Robin Currie	Councillor Michael Breslin
Councillor Mary-Jean Devon	Councillor Vivien Dance
Councillor George Freeman	Councillor Anne Horn
Councillor David Kinniburgh	Councillor Donald Kelly
Councillor Roddy McCuish	Councillor John McAlpine
Councillor Alistair MacDougall	Councillor Neil MacIntyre
Councillor Robert G MacIntyre	Councillor Bruce Marshall
Councillor Alex McNaughton	Councillor Douglas Philand
Councillor Jimmy McQueen	Councillor Isobel Strong
Councillor Aileen Morton	Councillor Sandy Taylor
Councillor Ellen Morton	Councillor Richard Trail
Councillor Gary Mulvaney	
Councillor Elaine Robertson	
Councillor Len Scoullar	
Councillor Dick Walsh	

Decision

Following a roll call vote the Motion was carried by 17 votes to 13 and the Council resolved accordingly.

(Reference: Report by Executive Director – Customer Services dated 13 January 2016, submitted)

11. INDEPENDENT REPRESENTATIVES: AUDIT COMMITTEE

A report advising that the term of office for the current Chair of the Audit Committee was due to expire on 31 March 2016 and for the Vice Chair on 20 April 2016 was considered. The report sought authorisation from the Council to extend the term of office for the current Chair and Vice Chair of the Audit Committee until 31 October 2017.

Decision

The Council agreed to extend the terms of office of the current Chair and Vice Chair of the Audit Committee to 31 October 2017.

(Reference: Report by Executive Director – Customer Services dated 13 January 2016, submitted)

12. REVIEW OF SCOTTISH STRATEGIC POLICE PRIORITIES

The Council considered a report summarising proposals contained within a Scottish Government Discussion Paper on Scottish Strategic Police Priorities which sought views from stakeholders, including Councils, by 12 February 2016. The report also presented a draft response for the Council to consider in its submission.

Decision

The Council approved the draft response and delegated the final response to the Head of Governance and Law in consultation with the Provost, with any final thoughts from Members being submitted by 5.00pm on Friday 22 January 2016, for submission to the Scottish Government.

(Reference: Report by Executive Director – Customer Services dated 13 January 2016, submitted)

The Council adjourned for lunch at 1.35pm and reconvened at 2.00pm. Councillor Mary Jean Devon left the meeting at this point.

13. LOCAL DEVELOPMENT PLAN: CONSOLIDATED SUPPLEMENTARY GUIDANCE SUBMISSION TO THE SCOTTISH EXECUTIVE

The Council considered a report advising of a further stage of the development plan process, which is the proposed submission to the Scottish Government of the Consolidated Supplementary Guidance (CSG) to support the Local Development Plan.

Councillor Robert G MacIntyre was not present during consideration of this item.

Decision

The Council –

1. Noted the content of the report.

2. Approved the recommendations of the Planning, Protective Services and Licensing Committee held on 19 August 2015 "to recommend to Council that the proposed supplementary guidance [3 new elements] be submitted to Scottish Ministers and thereafter adopted as a statutory part of the Development Plan, subject to satisfactory completion of the Scottish Ministers' evaluation".

3. Approved the proposed Consolidated Supplementary Guidance as amended.

4. Agreed that the proposed Consolidated Supplementary Guidance be submitted to the Scottish Ministers and thereafter adopted as a statutory part of the Development Plan, subject to no recommendation for changes by Scottish Ministers.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 8 January 2016, submitted)

Councillor Robert G MacIntyre rejoined the meeting.

14. DEVELOPMENT PLAN SCHEME: LOCAL DEVELOPMENT PLAN 2

The Council considered a report advising of the Development Plan Scheme which set out the timetable and consultation process for the Local Development Plan 2 and which was required to be prepared annually.

Decision

The Council –

1. Noted the content of the report.

2. Approved the proposed governance arrangements.

3. Approved the Development Plan Scheme, attached at Appendix 1 to the report by the Executive Director, for publication and submission to Scottish Ministers.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 8 January 2016, submitted)

15. ARGYLL AND BUTE COUNCIL HISTORIC ENVIRONMENT STRATEGY

The Council considered a report presenting the results of the public consultation on the Council approved Argyll and Bute Council Historic Environment Strategy.

Decision

The Council –

1. Noted the content of the report.

2. Agreed the proposed changes to the Strategy in Appendix A to the report by the Executive Director.

3. Adopted the amended document as the Argyll and Bute Council Historic Environment Strategy.

(Reference: Report by Executive Director – Development and Infrastructure Services dated January 2016, submitted)

16. THE HERMITAGE PARK - HERITAGE LOTTERY FUND OFFER OF AWARD

The Council considered a report advising that the Hermitage Park Project had been awarded a Heritage Lottery Find Grant that would release £2,831,000 of funding and support for a Council investment of £280,000.

Decision

The Council –

1. Agreed to the Heritage Lottery Fund Terms of Grant and delegated authority to the Chief Executive to intimate agreement to the terms to Heritage Lottery Fund.

2. Accepted the principle of underwriting the current shortfall of £268,409, if required, to enable the project to progress to the next stage which would be to secure the permission to start from the Heritage Lottery Fund and to then begin the delivery of the capital project in line with the project plan and associated time line.

3. Agreed that the mechanism to finance any shortfall would be dealt with as part of the 2016/17 budget process.

(Reference: Report by Executive Director – Development and Infrastructure Services dated January 2016, submitted)

17. COUNCIL BIRD CONTROL POLICY

The Council considered a recommendation from the Planning, Protective Services and Licensing Committee of 18 November 2015 in relation to options for the Council to adopt a Policy in respect of the control of bird nuisance within Argyll and Bute.

Motion

That the Council agree the recommendation from the Planning, Protective Services and Licensing Committee of 18 November 2015, that option 1, as detailed in the report by the Executive Director, be adopted as the Council's Bird Control Policy. This advisory service will also point people to a range of suitably qualified local contractors to assist.

Moved Councillor Ellen Morton, seconded Councillor Gary Mulvaney.

Amendment

The Council agree to provide both and Advisory and a limited enhanced service in respect of bird control. The advisory service would be free of charge and would inform members of the public on how best to protect and proof their property against bird infestation; a limited enhanced service will provide pest control exclusively in regard to the common gull and feral pigeon. It is proposed that an appropriate charge be levied in this regard to cover the full cost of delivering this service.

Moved Councillor Donald Kelly, seconded Councillor Douglas Philand.

Decision

On a show of hands vote the Motion was carried by 18 votes to 8 and the Council resolved accordingly.

(Reference: Recommendation from Planning, Protective Services and Licensing Committee of 18 November 2015 and report by Executive Director – Development and Infrastructure Services dated 30 October 2015, submitted)

18. NOTICE OF MOTION UNDER STANDING ORDER 13

A Notice of Motion Under Standing Order 13 had been submitted by Councillors Ellen Morton and Maurice Corry, however the proposer of the Motion, Councillor Ellen Morton, advised that she had been made aware of concerns that the submitted Motion may project a negative message to the public. She requested a short adjournment to discuss an alternative with the Group Leaders and to attempt to agree a unanimous Council decision on this. The Provost granted her request and the Council adjourned for five minutes.

Decision

The Council agreed that representation be made to the Scottish Government confirming that the Council:

- Reaffirms that Argyll and Bute is a great place to live, work, visit and do business, making the most of investment and infrastructure to develop its economy full of opportunities;
- Acknowledges the work that has been carried out to provide the catch netting along parts of the A83 and alternative route along the Old Military Road.
- However, the Council consider this to be a temporary solution and not a permanent solution.
- Notes the considerable investment that has been made on the A83/Rest and Be Thankful in recent years
- Notes that the steel arrestment netting has been effective in preventing much material from reaching the road, but not all
- Continues to have concerns regarding the reliability and safety of the current route even with the investment that has been made to date.
- Continues to have concerns regarding the impact of the closures of the A83 to the economy of the local area.

- Seeks a permanent solution to be progressed as a matter of urgency working in partnership with the Scottish Government, and a timescale provided for any permanent solution.
- Notes that a communications strategy is in place, and requests that this ensure that clear, key messages are communicated to the public at the earliest opportunity that Argyll and Bute is open for business and advertises the alternative routes to be used, including ferry routes.
- Agrees to write to the Parliamentary Petitions Committee to express the above concerns.

(Reference: Notice of Motion Under Standing Order 13, submitted; and alternative Motion, tabled)

The Provost advised that in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, the appendices relating to the following item of business would require him to exclude the press and public should any Member wish to discuss the content of those appendices on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraph 9 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

19. CARBON MANAGEMENT: PROVISIONAL FULL BUSINESS CASE: WIND TURBINE AT GLENGORM LANDFILL SITE

The Council considered a report outlining the work undertaken in relation to wind and which sought approval for a single wind turbine at Glengorm Landfill Site on Mull.

Decision

The Council -

1. Noted the annual carbon savings were expected to be in the region of 92.4 tonnes per annum.

2. Noted that the Provisional Full Business Case estimated that additional prudential borrowing capital funding of circa £404,680 would be required for the wind turbine at Glengorm Landfill Site to proceed to the implementation/delivery stage and that this would be funded through the annual savings.

3. Noted that the Provisional Full Business Case estimated a payback period of 12 years for the additional borrowing to complete the installation of the wind turbine, assuming completion by September 2016.

4. Agreed that based on the Provisional Full Business Case (impact, affordability, deliverability and risk) for the wind turbine, delegated authority be afforded to the Executive Director of Customer Services to accept tenders on behalf of the Council for the installation of the wind turbine at Glengorm Landfill Site in consultation with the Leader, Deputy Leader and Leader of the main Opposition. The Executive Director would only have the delegated authority to approve the tenders subject to the final Full Business Case presenting a payback period of less than the working life of the turbine. The final Full Business Case would be

informed by the tender documents as well as onsite wind monitoring which is currently underway.

5. Noted that should the turbine be commissioned post September 2016 the payback period would be increased to circa 19 years but that the commissioning date could not be confirmed until part way through the project when costs would have been incurred.

6. Agreed that the preparatory works listed in Appendix 1 be commenced immediately in order to meet the September 2016 deadline for commissioning of the turbine.

7. Noted that an update paper would be presented to Policy and Resources Committee in May 2016 to confirm the progress made with installation.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 8 January 2016, submitted)

The Council resolved in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public for the following item of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraph 9 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

20. SCOTCOURT HOUSE, 45 WEST PRINCES STREET & 31 JAMES STREET, HELENSBURGH

The Council considered a recommendation from a Special Meeting of the Helensburgh and Lomond Area Committee held on 23 November 2015 in respect of the sale of Scotcourt House at 45 West Princes Street and 31 James Street, Helensburgh.

Motion

That the Council agree the terms of the recommendation by the Helensburgh and Lomond Area Committee of 23 November 2015.

Moved Councillor Gary Mulvaney, seconded Councillor David Kinniburgh.

Amendment

That the Council agree the detail as contained at paragraph 1.2 (iii) of the report by the Executive Director on page 607 of the agenda pack of papers.

Moved Councillor Ellen Morton, seconded Councillor Richard Trail.

Decision

On a show of hands vote the Amendment was carried by 18 votes to 10 and the Council resolved accordingly.

(Reference: Report by Executive Director – Customer Services dated 24 November 2015, submitted)

ARGYLL AND BUTE COUNCIL	COUNCIL
STRATEGIC FINANCE	11 FEBRUARY 2016

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

1. EXECUTIVE SUMMARY

1.1 This report seeks Members approval of the proposed Treasury Management Strategy Statement and Annual Investment Strategy. These set out the Council's strategy for borrowing and investment for the forthcoming year along with the Council's Prudential Indicators which require to be set for a three year period.

1.2 The production of a Treasury Management Strategy Statement and Annual Investment Strategy for the forthcoming financial year is a requirement of the Treasury Management in the Public Services Code of Practice issued by the Chartered Institute of Public Finance and Accountancy.

1.3 The Treasury Management Strategy Statement and Annual Investment Strategy meet the requirements of the CIPFA Code of Practice on Treasury Management in Local Authorities.

1.4 The draft Treasury Management Strategy Statement and Annual Investment Strategy will be presented to the:

- Policy and Resources Committee on 11 February 2016
- Council on 11 February 2016
- Performance Review and Scrutiny (PRS) Committee on 25 February 2016
- Council on 21 April 2016, following review and comments from the PRS Committee.

1.5 As part of the scrutiny of the Treasury Management Strategy Statement and Annual Investment Strategy, the Performance Review and Scrutiny Committee will be asked to review the attached strategies and comment on it with any amendments required being brought to Council for approval in April.

1.6 The main changes to the Treasury Management Strategy Statement from 2015-16 are in the Treasury Indicators to reflect the expected movements in the Council's Capital Financing Requirement.

1.7 In terms of the Investment Strategy the main change, is to reduce the minimum Sovereign rating required in respect of counterparties from AA+ to AA. This change is to bring our Investment Strategy closer to Capita's suggested minimum requirement of AA-.

1.8 The change would permit the use of countries which are currently rated AA+ on the list if they were subject to future downgrades by the ratings agencies to AA. However, a consequence of the reduction in rating is that Abu Dhabi (UAE) and Qatar would feature on the list of approved countries and it is recommended that these countries are removed from the list of approved countries for investment.

2. RECOMMENDATIONS

2.1 To approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy subject to review by the Performance Review and Scrutiny Committee in February.

2.2 To approve the removal of Abu Dhabi (UAE) and Qatar from the list of approved countries for investment.

3. IMPLICATIONS

3.1 Policy – Sets the policy for borrowing and investment Decisions.

3.2 Financial - There are no direct financial implications arising from the recommendations in this report. An effective Treasury Management Strategy does however form a significant part of the Council's financial arrangements and its financial well-being.

3.3 Legal - None.

3.4 HR - None.

3.5 Equalities - None.

3.6 Risk - This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.

3.7 Customer Service - None.

Policy Lead for Strategic Finance: Councillor Dick Walsh

Kirsty Flanagan
Head of Strategic Finance
3 February 2016

For further information please contact Peter Cupples. Finance Manager Corporate Support 01546-604183.

APPENDICES
Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy 2016-17

Treasury Management Strategy Statement
and Annual Investment Strategy 2016-2017

INDEX

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.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- 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).

In year treasury management reporting – Members will be updated with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision at each meeting of the Policy and Resources Committee.

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.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

- the capital plans and the prudential indicators..

Treasury management issues

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

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations.

1.4 Treasury management consultants

The Council uses Capita Asset Services 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 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

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

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The capital expenditure forecasts are:

Capital expenditure £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Community Services	17,905	13,228	2,199
Customer Services	1,666	1,373	865
Development and Infrastructure Services	15,114	11,325	11,694
Unallocated Capital			
Total	**34,685**	**25,926**	**14,758**

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	34,685	25,926	14,758
Financed by:			
Capital receipts	6,302	8,090	250
Capital grants	9,359	11,852	11,852
Capital reserves	-	-	-
Revenue	1,087	1,818	-
Net financing need for the year	**17,937**	**4,166**	**2,656**

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 scheduled debt amortisation (loans pool charges) 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 £77.9m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement			
Opening CFR	259,000	265,766	259,688
Closing CFR	265,766	259,688	251,991
Movement in CFR	**6,766**	**(6,078)**	**(7,697)**

Movement in CFR represented by			
Net financing need for the year (above)	17,937	4,166	2,656
Less scheduled debt amortisation	11,171	10,244	10,353
Movement in CFR	**6,766**	**(6,078)**	**(7,697)**

2.3 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.). Detailed below are estimates of the year-end investment balances.

Year End Resources £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Expected investments	**20,000**	**15,000**	**10,000**

2.4 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.

2.5 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.

%	2016/17 Budget	2017/18 Budget	2018/19 Budget
Ratio	7.80%	7.39%	7.39%

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

2.6 Incremental impact of capital investment decisions on council tax.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the capital budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

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

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council tax - band D	38.44	8.92	5.70

3 TREASURY MANAGEMENT STRATEGY

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

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External Debt					
Debt at 1 April	161,181	173,379	154,589	169,589	179,589
Change in Debt	12,198	(18,790)	15,000	10,000	2,000
Other long-term liabilities (OLTL)	79,605	77,871	75,994	74,058	72,051
Expected change in OLTL	(1,734)	(1,877)	(1,935)	(2,007)	(2,117)
Actual gross debt at 31 March	**251,250**	**230,583**	**243,648**	**251,640**	**251,523**
The Capital Financing Requirement	**257,556**	**259,000**	**265,766**	**259,688**	**251,991**
Under / (over) borrowing	**6,306**	**28,417**	**22,118**	**8,048**	**468**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Head of Strategic Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: limits to borrowing activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	215	210	210
Other long term liabilities	80	80	80
Total	295	290	290

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 (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland 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 £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	220	215	215
Other long term liabilities	83	83	83
Total	303	298	298

3.3 Prospects for interest rates

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 our central view.

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing the Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 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.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Head of Strategic Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£m	2016/17	2017/18	2018/19
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	190%	190%	190%
Limits on variable interest rates based on net debt	60%	60%	60%
Maturity structure of fixed interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	30%
12 months to 2 years		0%	30%
2 years to 5 years		0%	30%
5 years to 10 years		0%	40%
10 years and above		0%	80%

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Council, at the earliest meeting following its action

4 ANNUAL INVESTMENT STRATEGY

4.1 Introduction: 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. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.2 Investment policy

The Council's investment policy has regard to the Scottish Government's Investments Investment (Scotland) Regulations (and accompanying Finance Circular) 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 and then return.

In accordance with guidance from the Scottish Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually 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.

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.

Investment instruments identified for use in the financial year are listed in appendices 5.3 and 5.4. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.3 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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it 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 F1 and a Long Term rating of A-. 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 the Capita Asset Services 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 daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

4.4 Country and sector limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA* from Fitch with the exception of Abu Dhai (UAE) and Qatar. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy with a minimum credit rating of AA from Fitch.

4.5 Council Permitted Investments

The Investments Regulations (Code on the Investment of Money by Local Authorities) requires the Council approval of all the types of investments to be used and set appropriate limits for the amount that can be held in each investment type. These types of investments are termed permitted investments and any investments used which has not been approved as a permitted investment will be considered ultra vires.

The permitted investment which may be used in the forthcoming year:

Cash Type Instruments

a. Deposits with the Debt Management Account Facility (UK Government);

b. Deposits with other local authorities or public bodies;

c. Money Market Funds;

d. Enhanced Money Market Funds;

e. Call account deposit accounts with financial institutions (banks and building societies);

f. Term deposits with financial institutions (banks and building societies);

g. UK Government Gilts and Treasury Bills;

h. Certificates of deposits with financial institutions (banks and building societies);

i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.);

j. Corporate Bonds;

Other Funds

k. Investment properties;

l. Loans to third parties, including soft loans;

m. Shareholdings in a local authority company;

n. Non-local authority shareholdings;

o. Loans to third parties as part of the Council's Empty Homes Strategy;

p. Loans to third parties as part of the Council's SHF Front Funding Facility;

q. Loans to third parties as part of the Council's Long Term Loan Funding to RSL's;

r. Hub Co Sub Debt.

Details of the risks, mitigating controls and limits associated with each of these permitted categories are shown in Appendix 5.4.

Common Good permitted investments are shown at Appendix 5.3, and where applicable the same counterparty selection criteria will be applied.

For those permitted cash type investments the Head of Strategic Finance will maintain a counterparty list in compliance with the counterparty selection criteria as stated above. These criteria select which counterparties the Council choose from, rather than defining what its investments are.

4.6 Investment Strategy

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

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

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			
	2016/17	**2017/18**	**2018/19**
Principal sums invested > 364 days	£20m	£20m	£20m

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 364 days) in order to benefit from the compounding of interest.

4.7 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.

4.8 External fund managers

The Council at present does not use fund manager but may consider the use of a manager in the future.

4.9 Policy on the Use of External Service Providers

The Council uses Capita Asset Services 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 extenal 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, documented and subjected to regular review.

4.10 Scheme of Delegation

Please see Appendix 5.6.

4.11 Role of the Section 95 Officer

Please see Appendix 5.7.

4.12 Treasury Management Policy

Please see Appendix 5.8.

5 APPENDICES

1. Interest rate forecasts
2. Economic background
3. Treasury management practice (TMP1) – permitted investments
4. Treasury management practice (TMP1) – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 95 officer
8. Treasury Management Policy Statement

5.1 APPENDIX: Interest Rate Forecasts 2016 - 2019

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-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
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%	1.50%	1.75%	1.75%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

5.2 APPENDIX: Economic Background

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- *Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.*
- *Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.*
- *Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.*

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.

However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while

November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW
Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 19 January 2016. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. . There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 4 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in 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 to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. 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.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in January 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2017.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- 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 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: -

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to 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.

5.3 APPENDIX: Treasury Management Practice (TMP1): Permitted Investments

This Council approves the following forms of investment instrument for use as permitted investments as set out in table 1 and 2.

Treasury risks
All the investment instruments in tables 1 and 2 are subject to the following risks: -

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1 / 2 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

4. **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. All types of investment instrument have interest rate risk.

5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 4.2 and 4.3.

2. **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk:** this authority does not purchase investment instruments that are subject to market risk in terms of fluctuation in their value.

4. **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 4.4.

5. **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations. All types of investment instruments

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 and 2 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

2. **High credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £10m can be placed with any one institution or group at any one time.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

DEPOSITS

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

a) **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

b) **Term deposits with high credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The authority will ensure diversification of its portfolio of deposits ensuring that no more than £10m can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.

c) **Call accounts with high credit worthiness banks and building societies.** The objectives are as for 1b. but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

d) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

e) **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

2. DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

a. **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1b. but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.

b. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently covered under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

3. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

a. **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

b. **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

c. **Enhanced Money Market Funds .** These funds are similar to MMFs, can still be AAA rated but have Variable Net Asset Values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

d. **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.

e. **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills..

b. **Treasury bills.** These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

c. **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

d. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

e. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

f. **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

6. OTHER

Property fund. This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc, a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

Table 1: permitted investments in house – Common Good

This table is for use by the in house treasury management team.

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	term	no	100	2 years
Term deposits – local authorities	--	term	no	100	2 years
Call accounts – banks and building societies	Green	instant	no	100	Call
Term deposits – banks and building societies	Green	term	no	100	2 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits.	Green	term	no	50	2 years
Collateralised deposit	UK sovereign rating	term	no	50	1 year

1.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	term	no		
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	AA	term	no		
Fixed term deposits with variable rate and variable maturities: - Structured deposits	AA	term	yes		

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1. Government Liquidity Funds	AAA	instant	No see note A	100	1 Year
2. Money Market Funds	AAA	instant	No see note A	100	1 Year
3. Enhanced Money Market Funds with a credit score of 1.25	AAA	T+1 to T+5	yes	100	1 Year
4. Enhanced Money Market Funds with a credit score of 1.5	AAA	T+1 to T+5	yes	100	1 Year
5. Bond Funds	AAA	T+2 or longer	yes	100	1 Year
6. Gilt Funds	AAA	T+2 or longer	yes	100	1 Year

NOTE A. The objective of MMFs is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

1.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	100	1 Year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	100	1 Year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	100	1 Year
Sovereign bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	yes	80	1 Year

1.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	Sale T+1	yes	80	2 years
Certificates of deposit issued by banks and building societies	UK sovereign rating	Sale T+1	yes	50	2 years
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	UK sovereign rating	Sale T+1	yes	50	2 years
Commercial paper other	AA	Sale T+1	yes	20	2 years
Corporate Bonds issuance covered by UK Government (implicit) guarantee	UK sovereign rating	Sale T+3	yes	50	2 years
Corporate Bonds other	AA	Sale T+3	yes	20	2 years
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	UK sovereign rating	Sale T+3	yes	80	2 years

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.

1.6 Other

	* Minimum Credit Criteria / fund rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property funds	--	T+4	yes	100	5 Years

Table 2: permitted investments for use by external fund managers – Common Good

2.1 Deposits

	*** Minimum Credit Criteria**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
Term deposits – local authorities	--	term	no	100	2 Years
Call accounts – banks and building societies **	Green	instant	no	100	Call
Term deposits – banks and building societies	Green	term	no	100	2 Years
Collateralised deposit	UK sovereign rating	term	no	50	1 Year

2.2 Deposits with counterparties currently in receipt of government support / ownership

	*** Minimum Credit Criteria**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
UK part nationalised banks	Blue	Term or instant	no	**100**	**1 Year**
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	AA+	Term or instant	no	**100**	**1 Year**

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

2.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1. Government Liquidity Funds	AAA	instant	No see note A	100	1 Year
2. Money Market Funds	AAA	instant	No see note A	100	1 Year
3. Enhanced Money Market Funds with a credit score of 1.25	AAA	T+>1	yes	100	1 Year
4. Enhanced Money Market Funds with a credit score of 1.5	AAA	T+>1	yes	100	1 Year
5. Bond Funds	AAA	T+>1	yes	100	1 Year
6. Gilt Funds	AAA	T+>1	yes	100	1 Year

NOTE A. The objective of these funds is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

2.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	100	1 Year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	100	1 Year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	100	1 Year
Sovereign bond issues (other than the UK govt)	AAA	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	80	1 Year

2.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	Sale T+1	yes	80	2 year
Certificates of deposit issued by banks and building	AA	Sale T+1	yes	50	2 years
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	UK sovereign rating	Sale T+1	yes	50	2 years
Commercial paper other	AA	Sale T+1	yes	20	2 years
Corporate Bonds issuance covered by UK Government (implicit) guarantee	UK sovereign rating	Sale T+3	yes	50	2 years
Corporate Bonds other	AA	Sale T+3	yes	20	2 year
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	UK sovereign rating	Sale T+3	yes	50	2 years
Floating Rate Notes	AA	Sale T+1	yes	80	2 years

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.

5.4 APPENDIX: Treasury Management Practice (TMP1): Credit and Counterparty Risk Management

Argyll and Bute Council and Common Good Funds Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Cash type instruments				
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	£unlimited, maximum 1 year.	£unlimited maximum 1 year.
c. Money Market Funds (MMFs) **(Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£10m per fund	100%

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
d. Enhanced Money Market Funds (EMMFs) **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the EMMFs have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£5m per fund	100%
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£10m, maximum 1 year.	100%, maximum 1 year.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£5m, per counterparty 1 year	20% maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. . Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£5m maximum 1 year.	20% maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Other types of investments				
k. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	£10m.	20%.
l. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£10m maximum 5 years.	10% maximum 5 years.
m. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	50%.	20%.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
n. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	5%.	100%.
o. Loans to third parties as part of the Council's Empty Homes Strategy	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£1.5m and a maximum of 10 years.	N/A
p. Loans to third parties as part of the Council's SHF Front Funding Facility	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 3 years.	N/A
q. Loans to third parties as part of the Council's Long Term Loan Funding to RSL's	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 30 years.	N/A

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
r. Hub Co sub debt	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be highly illiquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	£10m	N/A

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Capita Asset Services, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers – It is the Council's plan to consider the use external fund managers for part of its investment portfolio. The fund managers are contractually committed to keep to the Council's investment strategy. The performance of each manager is reviewed at least annually by the Head of Strategic Finance and the managers are contractually required to comply with the annual investment strategy.

5.5 APPENDIX: Approved countries for investments (as at 20.1.16)

AAA

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

AA+

- Finland
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

5.6 APPENDIX: Treasury management scheme of delegation

(i) The Council

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

(ii) The Peformance Review and Scrutiny Committee

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

(iii) The Audit Committee

- Review the overall internal and management control framework related to the treasury function.
- Review internal and external audit reports related to treasury management.
- Review provision in the internal and external audit plans to ensure there is adequate audit coverage of treasury management.
- Monitor progress with implementing recommendations in internal and external audit reports.

5.7 APPENDIX: The Treasury Management Role of the Section 95 Officer

The Head of Strategic Finance:-

- 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.
- reviewing and considering risk management in terms of treasury activities.

The nominated Elected Member (Council Leader/Policy Lead Strategic Finance):-

- acting as spokesperson for treasury management.
- taking a lead for elected members in overseeing the operation of the treasury function.
- review the treasury management policy, strategy and reports.
- support and challenge the development of treasury management.

5.8 APPENDIX: Treasury Management Policy Statement

1. This organisation defines its treasury management activities as: "The management of the 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".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management."

The policy in respect of borrowing and investments is to minimise the cost of borrowing and maximise investment returns commensurate with the mitigation of risk.

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Agenda Item 6

ARGYLL AND BUTE COUNCIL	COUNCIL
CUSTOMER SERVICES	11 FEBRUARY 2016

POLITICAL MANAGEMENT ARRANGEMENTS

1. EXECUTIVE SUMMARY

1.1 This report updates the Council on vacancies which have arisen on the Councils Committees and other outside bodies/organisations.

1.2 At the Council meeting on 21 January 2016 it was agreed that the current council representation on the Argyll and Bute Health and Social Care Integrated Joint Board (IJB) should remain in place until 31st March 2016 when, upon the start of a new board term, Councillor Maurice Corry shall replace Councillor Douglas Philand, with all other representatives unchanged (Councillors Devon, Robertson and Horn), with the council giving 28 days' notice of the changes in membership as required. Since this decision there has been a material change in circumstances in that Councillor Philand has intimated his decision to resign from the IJB. Consequently, in accordance with standing orders, Council is invited to reconsider its decision in relation to the timing of the appointment of Councillor Corry to the IJB. It is recommended that this should now have immediate effect to avoid a gap in representation.

1.2 On 22 January 2016 Councillor Douglas Philand also intimated his wish to the Executive Director of Customer Services to resign from his position on the Community Services Committee and as substantive member of the Stramash Board, with immediate effect. The Council is therefore invited to make one appointment of a member to the Community Services Committee and one appointment of a substantive member to the Stramash Board.

1.3 The decision taken at the Council meeting on 21 January 2016 to appoint Councillor Maurice Corry as Policy Lead for Health and Social Care Integration has resulted in him standing down from his position on the Audit Committee with immediate effect, as the Scheme of Administration and Delegation states that no member of the Audit Committee shall be a Policy Lead. The Council is therefore invited to make one appointment to the Audit Committee.

In addition Councillor Corry has intimated his resignation from the Performance Review and Scrutiny (PRS) Committee and consequently in accordance with Committee Constitution the Council is invited to make one appointment of a member of the Administration to the PRS Committee.

1.4 In summary the Council is invited to:

a) Reconsider the timing of the appointment of Councillor Corry to the IJB to take immediate effect
b) Make one appointment to each of the following Committees: -
    - Community Services Committee
    - Audit Committee
    - PRS Committee (member of Administration vacancy)
c) Make one appointment of a substantive member to the Stramash Board.

ARGYLL AND BUTE COUNCIL	COUNCIL
CUSTOMER SERVICES	11 FEBRUARY 2016

POLITICAL MANAGEMENT ARRANGEMENTS

2. INTRODUCTION

2.1 The Council is invited to give consideration to the vacancies which have arisen on Council Committees and Outside Bodies/Organisations following the resignation of Councillor Douglas Philand from the IJB, Community Services Committee and from the Stramash Board; and following the appointment of Councillor Maurice Corry as Policy Lead for Health and Social Care Integration his resignation from the Audit Committee and PRS Committee.

3. RECOMMENDATIONS

3.1 The Council is invited to:

a) Reconsider the timing of the appointment of Councillor Corry to the IJB to take immediate effect
b) Make one appointment to each of the following Committees of the Council:
    - Community Services Committee
    - Audit Committee
    - PRS Committee (member of Administration vacancy)
c) Make one appointment of a substantive member to the Stramash Board

4. DETAIL

4.1 Integrated Joint Board

At the Council meeting on 21st January 2016 it was agreed that the current council representation on the Argyll and Bute Health and Social Care Integrated Joint Board (IJB) should remain in place until 31st March 2016 when, upon the start of a new board term, Councillor Maurice Corry shall replace Councillor Douglas Philand, with all other representatives unchanged (Councillors Devon, Robertson and Horn), with the council giving 28 days' notice of the changes in membership as required.

Since this decision Councillor Philand has intimated his decision to resign from the IJB and consequently in accordance with standing orders, Council is invited to reconsider the decision in relation to the timing of the appointment of Councillor Corry to the IJB. It is recommended that this should now have immediate effect to avoid a gap in representation at a critical stage in the integration process.

4.1 Arising from the resignations on Committees intimated by Councillor Philand and Councillor Corry the constitution of the Committees/Groups of the Council requiring an appointment is as follows –

4.1.1 Community Services Committee

The Community Services Committee shall have 16 Members. The current membership is -

Councillor Gordon Blair
Councillor Rory Colville
Councillor Maurice Corry
Councillor Robin Currie (Chair)
Councillor Mary-Jean Devon (Vice Chair)
Councillor George Freeman
Councillor Anne Horn
Councillor John McAlpine
Councillor Neil MacIntyre
Councillor Robert E Macintyre
Councillor Roderick McCuish
Councillor Jimmy McQueen
Councillor Aileen Morton
Councillor Elaine Robertson
Councillor Isobel Strong
Vacancy – Councillor

When considering matters relating to the education function of the Council it also has three persons interested in the promotion of religious education who shall be voting members and two non-voting teachers elected by teaching staff employed in local authority schools in the Council's area.

4.1.2 Audit Committee

The Audit Committee shall have 5 Members, none of which shall be a Policy Lead; and two members who are not Councillors, and who will be respectively Chair and Vice Chair of the Committee. The current membership is –

Martin Caldwell (Chair)
Sheila Hill (Vice-Chair)
Councillor Iain S MacLean
Councillor Michael Breslin
Councillor Iain A MacDonald
Councillor Richard Trail
Vacancy – Councillor

4.1.3 Performance Review and Scrutiny Committee

The PRS Committee shall have 11 members, 4 from the opposition, 3 from the administration, 3 Community Planning Partnership nominees and an independent Chair. The current membership is:

Ian MM Ross – Independent Chair
Councillor Gordon Blair
Councillor Anne Horn
Councillor John McAlpine
Councillor Iain A MacDonald
Councillor Donald MacMillan
Councillor Sandy Taylor (Vice –Chair)
Vacancy

And 3 Community Planning Partnership nominees:

- Grant Manders, Police Scotland
- James Hymas, Fire and Rescue
- Vacancy - awaiting nomination by Community Planning Partnership arising from resignation of Douglas Cowan HIE

4.2 Further Information on Outside Bodies requiring an appointment – Stramash

Stramash is a social enterprise and a registered charity that uses the outdoor environment to provide life changing experiences while at the same time promoting understanding and stewardship of the environment. The Council are entitled to have 2 substantive members on the Board and current membership is as follows:

- Councillor Roddy McCuish
- Vacancy

5.0 CONCLUSION

5.1 The Council is invited to reconsider the timing of the appointment of Councillor Corry to the IJB as agreed at Council on 21January following the resignation of Councillor Philand from this position. It is recommended that this should take immediate effect to avoid a gap in representation.

5.2 The Council is invited to give consideration to the vacancy which has arisen on the Community Services Committee following the intimation of resignation from the committee by Councillor Douglas Philand.

5.3 The Council is invited to give consideration to vacancies which have arisen on both the Audit Committee and the PRS Committee following the appointment of Councillor Maurice Corry as Policy Lead for Health and Social Care Integration.

5.4 The Council should also give consideration to making an appointment of a substantive member to the Stramash Board following the following the intimation of resignation from the Board by Councillor Douglas Philand.

6.0 IMPLICATIONS

6.1 Policy – Potential impact on IJB if vacancy exists during critical period.

6.2 Financial – None.

6.3 Legal - None

6.4 HR - None

6.5 Equalities - None

6.6 Risk – Brief period of reduced council representation on IJB

6.7 Customer Service - None

Douglas Hendry
Executive Director of Customer Services
1 February 2016

For further information contact: Charles Reppke, Head of Governance & Law 01546 604192

ARGYLL AND BUTE COUNCIL	**COUNCIL**
CHIEF EXECUTIVE	**11 FEBRUARY 2016**

APPOINTMENT OF RECRUITMENT PANEL: POST OF CHIEF EXECUTIVE

1. SUMMARY

The purpose of this report is to invite the Council to establish an Appointments Panel to appoint to the post of Chief Executive.

2. RECOMMENDATIONS

2.1 That the Council establishes an Appointments Panel of 7 Members to appoint to the post of Chief Executive.

2.2 Note that as an operational matter, arrangements will be made as necessary to ensure continuity of service delivery.

3. DETAIL

3.1 I have tendered my resignation from my employment as Chief Executive with the Council with effect from 8th May 2016.

3.2 The Council is therefore invited, in accordance with normal practice, to establish an Appointments Panel to appoint to the post of Chief Executive on behalf of the Council.

3.3 It is recommended that, in line with existing practice, a Panel of 7 Members be appointed to deal with and make the necessary arrangements. This will include securing the services of a Local Authority Chief Executive to advise the Panel as appropriate, to make an appointment. It is possible that there may be a gap between my leaving and a new Appointee taking up post, and, in order to ensure the continued operational management and direction of the organisation, arrangements will be made as necessary.

4. IMPLICATIONS

Policy -	The post is required to ensure that the Council's statutory obligations are met.
Financial –	None
Legal -	None
HR -	The Council's procedures have been adhered to.
Equalities -	None
Risk -	None
Customer Service	None

Chief Executive - Sally Loudon
4 February 2016

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