Public Document Pack

Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
Executive Director: Douglas Hendry

Kilmory, Lochgilphead, PA31 8RT
Tel: 01546 602127 Fax: 01546 604435
DX 599700 LOCHGILPHEAD

16 February 2017

NOTICE OF MEETING

A meeting of the **ARGYLL AND BUTE COUNCIL** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **THURSDAY, 23 FEBRUARY 2017** at **11:00 AM**, 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 - 10)

   Argyll and Bute Council held on 26 January 2017

4. **MINUTES OF COMMITTEES**

* (a) Policy and Resources Committee held on 16 February 2017 (to follow)

The above minutes are submitted to the Council for approval of any recommendations on the items which the Committee does not have delegated powers. These items are marked with an *.

5. **BUDGETING PACK**

   (a) INTRODUCTORY REPORT AND RECOMMENDATIONS FOR BUDGET PAPERS (Pages 11 - 18)

   Report by Head of Strategic Finance

(b) REVENUE PACK

- Budget Consultation Findings Report
- Service Plans 2017-2020
- Revenue Budget Overview
- Report on Fees and Charges
- Revenue Budget Monitoring 2016-17 as at 31 December 2016
- Report on Financial Risks Analysis
- Report on Reserves and Balances

(c) CAPITAL PACK

- Capital Plan Summary
- Corporate Asset Management Strategy
- Corporate Asset Management Plan
- Service Asset Management Plans:
    - Community Services Asset Management Plan
    - Integration Services Asset Management Plan
    - Customer Services Asset Management Plan
    - ICT Group Asset Management Plan
    - Development and Infrastructure Asset Management Plan

6. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY (Pages 19 - 76)

Report by Head of Strategic Finance

[The Budgeting Pack of papers relative for consideration of the foregoing matters were circulated with the Agenda for the Policy and Resources Committee for 16 February 2017. Please bring these papers with you to this meeting]

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, 26 JANUARY 2017

Present: Councillor Len Scoullar (Chair)

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

Attending: Cleland Sneddon, Chief Executive
Douglas Hendry, Executive Director of Customer Services
Ann Marie Knowles, Acting 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

1. NOTICE OF MOTION UNDER STANDING ORDER 14

The Head of Governance and Law advised that in terms of Standing Order 14 the following Notice of Motion by Councillor Armour, seconded by Councillor Kelly had been received for consideration as a matter of urgency at this meeting:-

Preamble

At a meeting in Glasgow on 19th December 2016 attended by Christina West and Lorraine Paterson from the Health and Social care partnership and members of the Crossreach board it was agreed that both Crossreach and HSCP would take a proposal to their respective boards to fund the losses at Auchinlee care home for a 3 month period (estimated to be £105,000) and that Crossreach would provide £45,000 of the total cost with HSCP providing the remaining £60,000. This would allow Auchinlee Care Home to remain open until an investigation of all alternative provision in the area has been completed.

Additional time for the home to remain open would allow full consultation and communication with the community support groups, carers and families. This would provide the opportunity for the proposed Care Summit to take place when the issues for Care of Older People can be discussed fully with all concerns addressed. If after full consultation the proposal is progressed transition for residents could be carried out in a dignified, appropriate and compassionate manner.

The unique geography of the Kintyre Peninsula has additional complications for alternative appropriate care for older people and the prospect of the majority of Auchinlee Residents being moved out with Argyll and Bute is causing anxiety and distress with families and carers. Travel to areas out with Argyll and Bute is tiring, difficult and costly particularly if visitors require to use public transport and could result in the separation of families and loved ones.

At a meeting of the Integrated Joint Board of the Health and Social Care Partnership on Wednesday 25th January 2017 it was agreed not to fund the £60,000 prosed at the meeting on 19th December.

Motion

Council is urged to engage with the Integrated Joint Board of the Health and Social Care Partnership to work in conjunction with Crossreach and to explore the possibility of funding the £60,000 required to keep Auchinlee Care Home open for 3 months as there is no identified short, medium or long term solution to provide care in Kintyre and Mid Argyll, this can allow everyone involved time to explore every option available.

The Provost ruled that he considered this item to be urgent by reason of the need to take an urgent decision on the matter. The Council agreed to consider the Motion and this is dealt with at item 17 of this Minute.

2. APOLOGIES FOR ABSENCE

Apologies for absence were intimated by Councillors RE Macintyre, Mulvaney and Robb.

3. DECLARATIONS OF INTERESTS

There were no declarations of interest intimated.

4. MINUTES

(a) **Argyll and Bute Council held on 24 November 2016**

The Minute of the Meeting of Argyll and Bute Council held on 24 November 2016 was approved as a correct record.

Councillor Trail asked that it be recorded that he left the meeting prior to item 24.

(b) **Special Argyll and Bute Council held on 7 December 2016**

The Minutes of the Special Meeting of Argyll and Bute Council held on 7 December 2016 was approved as a correct record.

5. MINUTES OF COMMITTEES

(a) Community Services Committee held on 8 December 2016

The Minutes of the Community Services Committee held on 8 December 2016 were noted.

Arising from item 11 (Argyll and Bute Local Housing Strategy (LHS) 2016/17 – 2020/21, the Council approved the Local Housing Strategy for submission to the Scottish Ministers.

(b) Policy and Resources Committee held on 15 December 2016

The Minutes of the Policy and Resources Committee held on 15 December 2016 were noted.

Arising from item 6 (Integration Joint Board – Funding Request, the Council agreed to:-

a) Approve that an additional £0.110m of funding in respect of the Living Wage is added to the IJB's 2016-17 recurring baseline budget allocation and note that the 2016-17 allocation would be funded from the General Fund Balance;

b) Note that the IJB agreed a Quality and Financial Plan for 2016-17 and this included savings options in respect of Struan Lodge and Thomson Court;

c) Note that if a forecast overspend situation arises within Council departments, the Council department in the first instance would be expected to find alternative savings within their department to fund any overspend and requests that the IJB prepares a financial recovery plan setting out how it proposes to address any forecast overspend;

d) Not approve an additional payment of £0.185m and to request that the IJB looks for alternative savings and report back to the Council later in the financial year as required within the Scheme of Integration.

e) Instruct the Head of Strategic Finance to obtain a copy of the recovery plan and assess the current forecast overspend against the recovery plan in order to quantify the risk that the Council may require to make an additional payment to the IJB at the financial year end.

6. DIRECTOR OF PUBLIC HEALTH ANNUAL REPORT 2016

The Council received an informative presentation on the Director of Public Health's Annual Report 2016 by Elaine Garman, Public Health Specialist. The Annual Report focused on the impact of loneliness and isolation on the health of the people living in Argyll and Bute. Members were given the opportunity to ask questions and then the Provost formally thanked Elaine Garmin for her presentation to the Council, and thanked Alison McGrory, Health Improvement Principal, for her attendance.

7. LEADER'S REPORT

A report providing the Council with an update on the activities undertaken by the Leader of the Council from 7 November 2016 to 13 January 2017 was considered. The report also provided updates in respect of the Leaders role as Policy Lead Councillor for Finance, IT, HR and Governance.

Decision

The Council:-

1. Noted the content of the report.

2. Noted that the full Leaders report pack was available in the Leader's Office which included COSLA papers and briefings as referenced in the report.

3. Noted that any COSLA items heard in public session could be provided to Members electronically and any items taken in private session could be reviewed in the Leader's Office.

(Ref: Report by Leader of the Council dated 16 January 2017, submitted)

8. POLICY LEAD COUNCILLORS REPORTS

(a) **PPSL, Planning Services, Historic and Sustainable Development**

The Council considered a report providing an update on the main focus of the Policy Lead Councillor for PPSL, Planning Services, Historic and Sustainable Development since 18 June 2016.

Decision

The Council noted the terms of the report.

(Ref: Report by Policy Lead Councillor for PPSL, Planning Services, Historic and Sustainable Development dated 18 January 2017, submitted)

(b) **Island Affairs**

The Council considered a report providing an update on the main focus of the Policy Lead Councillor for Island Affairs since June 2016.

Decision

The Council noted the terms of the report.

(Ref: Report by Policy Lead Councillor for Island Affairs dated 16 January 2017, submitted)

9. POLITICAL MANAGEMENT ARRANGEMENTS

(a) **Minute of Short Life Working Group on Political Management Arrangements held on 15 November 2016**

The Council considered the Minute of the Short Life Working Group on Political Management Arrangements.

Decision

The Minute of the Short Life Working Group on the Political Management

Arrangements were noted.

(Ref: Minute of SLWG of 15 November 2016, submitted)

(b) **Minute of Short Life Working Group on Political Management Arrangements held on 12 December 2016**

The Council considered the Minute of the Short Life Working Group on Political Management Arrangements.

Decision

The Minute of the Short Life Working Group on the Political Management Arrangements were noted.

(Ref: Minute of SLWG of 12 December 2016, submitted)

10. THIRD SECTOR ASSET TRANSFER, CAR PARK AND PUBLIC CONVENIENCES, CARRADALE HARBOUR

The Council considered a recommendation by the Mid Argyll, Kintyre and the Islands Area Committee with regard to the car park and public conveniences at Carradale harbour.

Decision

The Council agreed that the car park, area of foreshore and public conveniences at Carradale harbour are leased to Network Carradale Limited on the basis of a 25 year lease at a rental of £100 per annum.

(Ref: Recommendation by the MAKI area committee of 7 December 2016, submitted)

11. THIRD SECTOR ASSET TRANSFER - BALEMARTINE PLAYING FIELD

The Council considered a recommendation by the Oban, Lorn and the Isles Area Committee with regard to the Balemartine playing field.

Decision

The Council agreed that the Balemartine schoolhouse playing field is leased to the Balemartine Residents Association on the basis on a 21 year lease at a rental of £1 per annum.

(Ref: Recommendation by the OLI area committee of 9 December 2016, submitted)

12. THIRD SECTOR ASSET TRANSFER - FORMER PUBLIC TOILETS - DERVAIG

The Council considered a recommendation by the Oban, Lorn and the Isles Area Committee with regard to the former public toilets and surrounding ground at Dervaig, Isle of Mull.

Decision

The Council agreed that the former Derviag public toilets and adjacent land is sold to the North West Mull Community Woodland Co Ltd for the sum of £100.

Further agreed to delegate to the Executive Director of Customer Services authority to agree the terms and the conditions of the sale to the Third Sector, to protect the Council’s interests.

(Ref: Recommendation by the OLI area committee of 9 December 2016, submitted)

13. PROPOSED VARIATION OF PATH AGREEMENTS TO FACILITATE TRANSFER OF THE DALRIADA TRUST TO THE BLARBUIE FOREST ENTERPRISE

The Council considered a recommendation by the Planning, Protective Services and Licensing Committee with regard to a proposed variation of path agreements to facilitate transfer of the Dalriada Trust to the Blarbuie Forest Enterprise.

Decision

The Council agreed that Councillor Donald MacMillan be appointed to the Board of Blarbuie Woodland Enterprise.

(Ref: Recommendation by the PPSL committee of 14 December 2016, submitted)

14. TACKLING DOG FOULING

The Council considered a report which provided an update following a report to Council in September 2015 where the council agreed to explore the possibility of a programme of name and shaming individuals who are fined for dog fouling. The Council also noted the sad passing of the former Dog Warden for Argyll and Bute, Peter McLuckie.

Decision

The Council noted:-

- The legal advice in relation to naming and shaming, and
- The ongoing work to help reduce dog fouling

(Ref: Report by the Executive Director of Development and Infrastructure Services dated December 2016, submitted)

15. NOTICE OF MOTION UNDER STANDING ORDER 13

The following Notice of Motion under Standing Order 13 was before the Council for consideration:-

Motion

That Argyll and Bute agree to ban the use of sky lanterns and helium balloon release from Council owned land and property in an effort to make the countryside safer for grazing livestock, prevent harm to wildlife at sea and on land and to protect the environment.

The Council is asked to delegate to the Director of Development and Infrastructure the authority to put in place arrangements to support this principle.

Moved by Councillor Marshall, seconded by Councillor Strong.

Decision

The Council unanimously supported the terms of the Motion.

(Ref: Notice of Motion by Councillor Marshall, seconded by Councillor Strong, submitted)

16. NOTICE OF MOTION UNDER STANDING ORDER 13

The following Notice of Motion under Standing Order 13 was before the Council for consideration:-

Preamble bullet points:

- Auto-immune anti-NMDA Receptor Encephalitis, or NMDA, is a disease which is often misdiagnosed as a mental health issue because it presents in the same way as other conditions such as bipolar or schizophrenia.
- The reason it is misdiagnosed is because NMDA is not being taught within the UK medical curriculum – which means that healthcare professionals are failing to recognise it.
- If left untreated, or not treated correctly, NMDA can lead to behavioural changes, confusion, cerebellar symptoms, reduced consciousness and death.
- Incorrectly diagnosing NMDA as a mental health condition means that, as well as going without the correct treatment, sufferers are often sectioned under the Mental Health Act and admitted to mental health institutions/secure care.
- As well as causing unnecessary distress to sufferers and their families, this adds needless pressure to mental health care services as well as budgets.
- All of this is unnecessary because NMDA, when recognised and correctly diagnosed, is easily treated using standard inexpensive medications which are readily available through the NHS – and, with appropriate treatment, the disease is generally reversible with a good prognosis.
- There are people living in Argyll and Bute who are suffering through misdiagnosis of NMDA and therefore are not receiving the appropriate treatment they need in order to recover and live a full life. Because this is affecting people in our communities, through this motion I hope that Argyll and Bute Council can contribute to raising awareness of NMDA and I am asking the council to do the following:

Motion

People with NMDA need and deserve to have their condition diagnosed correctly so they get the right treatment and have every chance of making a good recovery. In order for this to happen, the General Medical Council should include NMDA in its UK Medical Curriculum for health care professionals. Therefore, Argyll and Bute Council agrees to:

- Write to the appropriate Scottish and UK Government Ministers responsible for health issues seeking their support in calling for Auto-immune anti-NMDA Receptor Encephalitis (NMDA) to be added to the UK Medical Curriculum as soon as possible;
- Write to the UK General Medical Council requesting that it includes NMDA, its diagnosis and its treatment in the UK Medical Curriculum as soon as possible.

Moved by Councillor Devon, seconded by Councillor Horn.

Decision

The Council unanimously supported the terms of the Motion.

(Ref: Notice of Motion by Councillor Devon, seconded by Councillor Horn, submitted)

17. NOTICE OF MOTION UNDER STANDING ORDER 14

The following Notice of Motion had been submitted under Standing Order 14 as a matter of urgency:-

Preamble

At a meeting in Glasgow on 19th December 2016 attended by Christina West and Lorraine Paterson from the Health and Social care partnership and members of the Crossreach board it was agreed that both Crossreach and HSCP would take a proposal to their respective boards to fund the losses at Auchinlee care home for a 3 month period (estimated to be £105,000) and that Crossreach would provide £45,000 of the total cost with HSCP providing the remaining £60,000. This would allow Auchinlee Care Home to remain open until an investigation of all alternative provision in the area has been completed.

Additional time for the home to remain open would allow full consultation and communication with the community support groups, carers and families. This would provide the opportunity for the proposed Care Summit to take place when the issues for Care of Older People can be discussed fully with all concerns addressed. If after full consultation the proposal is progressed transition for residents could be carried out in a dignified, appropriate and compassionate manner.

The unique geography of the Kintyre Peninsula has additional complications for alternative appropriate care for older people and the prospect of the majority of Auchinlee Residents being moved out with Argyll and Bute is causing anxiety and distress with families and carers. Travel to areas out with Argyll and Bute is tiring, difficult and costly particularly if visitors require to use public transport and could result in the separation of families and loved ones.

At a meeting of the Integrated Joint Board of the Health and Social Care Partnership on Wednesday 25th January 2017 it was agreed not to fund the £60,000 prosed at the meeting on 19th December.

Motion

Council is urged to engage with the Integrated Joint Board of the Health and Social Care Partnership to work in conjunction with Crossreach and to explore the possibility of funding the £60,000 required to keep Auchinlee Care Home open for 3 months as there is no identified short, medium or long term solution to provide care in Kintyre and Mid Argyll, this can allow everyone involved time to explore every option available.

Moved by Councillor Armour, seconded by Councillor Kelly.

Amendment

The Council:

- Notes with extreme concern the uncertainties with the provision of future elderly care services and support at Auchinlee Care Home, Campbeltown;
- Notes with concern the lack of clarity around the arrangements for the future sustainability of this care provision in Campbeltown;
- Notes that the Health and Social Care Partnership Integrated Joint Board, at its meeting on Wednesday 25th January 2017, did not agree to provide requested funding that would assist with a three-month temporary arrangement that would delay any proposed action by Crossreach;
- Calls, therefore, on both Crossreach and the Church of Scotland to take no action at this time that would promote the closure of this much-needed local facility;
- Requests that Crossreach, the Church of Scotland, the Health and Social Care Partnership and the Scottish Government begin immediate discussions with a view to sustaining this important service in Campbeltown, for the long term, for all residents of Campbeltown and Kintyre who need this level of support and care;
- Notes that the council is willing to participate in, and to facilitate if need be, those future discussions to assist with progress.

Moved by Councillor Green, seconded by Councillor Colville.

The requisite number of Members required the vote to be taken by calling the roll, and Members voted as follows:-

Motion	**Amendment**	**No Vote**
Councillor Armour	Councillor Colville	Councillor Devon
Councillor Blair	Councillor Corry	
Councillor Breslin	Councillor Currie	
Councillor Dance	Councillor Green	
Councillor Freeman	Councillor Kinniburgh	
Councillor Horn	Councillor McCuish	
Councillor Kelly	Councillor MacDougall	
Councillor McKenzie	Councillor N MacIntyre	
Councillor Marshall	Councillor RG MacIntyre	
Councillor Philand	Councillor MacMillan	
Councillor Strong	Councillor McNaughton	

Councillor Taylor	Councillor McQueen
Councillor Trail	Councillor A Morton
	Councillor E Morton
	Councillor Robertson
	Councillor Scoullar
	Councillor Walsh

Decision

The Amendment received 17 votes and the Motion received 13 votes and the Council resolved accordingly.

Agenda Item 5a

ARGYLL AND BUTE COUNCIL	COUNCIL
STRATEGIC FINANCE	23 FEBRUARY 2017

INTRODUCTORY REPORT AND RECOMMENDATIONS FOR BUDGET PAPERS

1. EXECUTIVE SUMMARY

1.1 This report introduces the full package of papers included in the budget packs in relation to the revenue and capital budgets. The following papers and their purpose are included in the budget packs in relation to the revenue and capital budgets.

REVENUE PACK

Budget Consultation – Findings Report

1.2 This report summarises the feedback provided by local communities to the Council's budget planning consultation.

1.3 More than 1,700 people responded to the consultation providing views on what matters most about the role and services of the Council, on making savings and on the Council and communities working together.

Service Plans 2017-20

1.4 This report is to present the draft Service Plans for 2017-20. The Strategic Management Team agreed at their meeting on 19 September 2016 to proceed with three year service plans, including one year budget information.

Revenue Budget Overview

1.5 This report summarises the overall revenue budget position covering funding, expenditure and savings. It also sets out the assumptions and proposals around non-pay inflation and the cost and demand pressures for inclusion in the revenue budget.

1.6 The funding for 2017-18, net of ring-fenced grants is £189.774m. Included within the funding is a distribution in respect of the Council Tax Reduction Scheme (CTRS) programme and administration. For 2017-18 it was agreed that 10% of the funding would be held back and distributed to authorities in December 2017 in order to ensure that the distribution reflects the changes to the Council Tax band multiplier. The reduction between 2016-17 and 2017-18 amounts to £0.623m and it is assumed that this amount will be distributed later this year. The total funding, including this 10% hold-back would therefore be £190.397m. The change in funding, excluding ring fenced grants, between 2016-17 and 2017-18 is a reduction of £6.305m or 3.2%.

1.7 The Council Tax income for 2016-17 was agreed as £41.314m and this is the starting position for 2017-18. The proposed changes to the Council tax income are noted below:

- An estimate of Council Tax growth at 0.5% resulting in estimated additional income of £0.207m.
- End the Council Tax discount on second homes from April 2017 which will raise an additional £0.380m.
- End to the Council Tax freeze and replace with a 3% increase which will raise an additional £1.239m.
- Change to the Council Tax bands E, F G and H as directed by the Scottish Government which raises an additional £2.306m.
- Reflect saving option CSS02h agreed as part of the budget in February 2016 applying landlord penalties where applicable and increasing Council Tax income by £0.030m.

1.8 The budget for 2016-17 has been rolled forward into 2017-18 and the main changes to the 2017-18 budget are summarised below:

- Base budget adjustments resulting in a reduction to the base of £1.819. The main adjustments are in relation to a reduction in loans charges, removal of one-off cost pressure for Broadband Pathfinder project agreed last year, adding back unitary charge budget used in 2016-17 as a one-off saving, increase to the Health and Social Care Partnership in relation to the Scottish Living Wage and financial settlement adjustments.
- Employee cost increases amounting to £2.187m relating to pay inflation, pay increments, the estimated cost of auto enrolling all existing employees into the superannuation scheme from 1 October 2017 and a downward adjustment to the employee base.
- Allowance for unavoidable/inescapable non-pay inflation of £0.643m.
- Cost and demand pressures amounting to £2.064m which includes £1.527m pressures relating to Integration Services with the remaining £0.537 for Council services.
- Additional Income of £0.313m from applying a standard 3% increase to most fees and charges and additional income from introducing a new charge for Adult Education courses.
- Service Choices savings agreed at Council last February and adjusted to reflect the delay/shortfall on the Catering and Cleaning saving and the Leisure Trust saving. Net savings amount to £2.522m.
- Management Operational savings agreed at Council last February amounting to £0.101m.
- Efficiency Savings as reported to Council on 24 November 2016 amounting to £1.377m deliverable in 2017-18.

1.9 Local authorities have been advised that they are able to adjust their allocations to Integration Authorities in 2017-18 by up to their share of £80m below the level of budget agreed with their Integration Authority for 2016-17 (as adjusted where agreed for any one-off items of expenditure which should not feature in the baseline). Argyll and Bute's share of the £80m has been confirmed as £1.450m. The adjustment to the allocation implies that any cost increases (inflation and pressures) for Integration Services will require to be met from their overall allocation of funding within the Health and Social Care Partnership and these total £2.137m for 2017-18.

1.10 Members agreed to all the changes noted within this report, this would produce a balanced budget for 2017-18 with a surplus of £2.580m.

1.11 The indicative budget for 2018-19 and 2019-20 outlines that the budget gap in 2018-19 is £3.519m rising to £9.300m in 2019-20. This gap is in essence the savings target for the following two years. The approach to meeting the savings target will be inclusive of efficiencies, transformational change and also service reductions and detailed proposals will be developed, using the financial strategy principles, and will be brought back to Members at a future budget setting meeting.

Fees and Charges

1.12 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.

1.13 The general increase to fees and charges is proposed at 3% for 2017-18. This was the increase applied each year between 2013-14 and 2015-16, with a 6% increase applied in 2016-17. There are some exceptions to the general increase and these are outlined within the report. The increase would equate to additional income of £0.309m.

1.14 To increase income generation, the Council's Transformation Working Group has worked with the Community and Culture services to develop a leisure based non vocational adult education course. The forecasted net income to be generated in 2017-18 is circa £0.004m. This is in addition to the proposed inflationary increase of £0.309m.

Revenue Budget Monitoring Report as at 31 December 2016

1.15 This report provides a summary of the current revenue budget monitoring position to ensure net expenditure is contained within budget. It provides corporate and departmental information with comparisons on a forecast outturn and a year to date basis.

1.16 The forecast outturn as at the end of December is an underspend of £1.632m. The majority of the underspend is either one-off or as a result of careful financial management. Where relevant any impact on next year has been accounted for within the 2017-18 budget estimates. The underspend mainly relates to:

- forecast saving in loans interest payments of £0.900m due to effective management of the Council's cash and borrowing position,
- vacancy savings in excess of target amounting to £0.533m due to careful management of posts in advance of future saving requirements,
- additional anticipated income from berthing, car and passenger dues since the introduction of RET, £0.200m,
- saving of £0.500m in utilities due to a reduction in energy costs and also the corporate approach adopted to monitor and manage utilities,
- procurement and fuel cost savings of £100k,
- offset by a shortfall in planning fees of £0.160m, an anticipated overspend within winter maintenance and a shortfall in savings due to the delay in implementing service choices savings options.

1.17 The Strategic Management Team have agreed to develop 11 digital transformation options and Members are asked to approve in principle that £0.172m of the Customer Services estimated underspend is earmarked and carried forward to be used to develop detailed business cases and to support the work of the Transformation Board. This would reduce the forecast underspend to £1.460m.

Financial Risks Analysis 2017-18

1.18 This report set out the risks identified as part of preparing the revenue budget and makes an assessment of the potential financial impact of these. The financial risks are monitored routinely throughout the year and actions put in place to mitigate risks.

1.19 A number of Council wide risks, both revenue and capital have been identified along with risks for each department and service of the Council. For each departmental risk the financial impact has been quantified and the likelihood assessed based on the standard risk matrix.

1.20 Whilst a total of 42 departmental risks totalling £4.159m have been identified, only 3 of the risks are categorised as likely and no risks have been categorised as almost certain.

Reserves and Balances

1.21 This report summarise the reserves and balances, sets out an analysis of risk around the adequacy of reserves and balances and proposes a level of contingency to be held in the General Fund Reserve.

1.22 The Council has a total of £57.115m usable reserves as at the end of 31 March 2016. Of this balance, £0.671m relates to Repairs and Renewals Fund, £4.027m relates to Capital Funds and the remainder is held in the General Fund, with £43.272m of the balance earmarked for specific purposes.

1.23 The unallocated General Fund balance as at the end of 31 March 2016 amounts to £4.402m. £0.010m has already been committed towards the Amberg-Sulzbach Twinning and £0.110 towards the increased Scottish Living Wage costs incurred by the Health and Social Care Partnership in 2016-17. There is £0.056m of earmarked reserves no longer required and a balance £0.006m of budgeted surplus in 2016-17. This gives a revised unallocated General Fund balance of £4.344 prior to the budget being approved. Added to this amount would be the surplus of £2.580m created if the proposed budget is approved as well as a reduction in the contingency required of £0.077m to re-base on the 2017-18 budget position. This would leave an unallocated balance remaining of £7.001m.

1.24 The forecast underspend for 2016-17 is currently estimated at £1.460 (after adjusting for carry forward for digital transformation/Transformation Board of £0.172m) which could increase the balance as at 31 March 2017 to £8.461m, however, this is an estimated position and is subject to change.

1.25 The General Fund contingency level remains at 2% of net expenditure. This monetary level has been adjusted to take account of the revised net revenue expenditure proposed for 2017-18, thereby releasing £0.077m back into the unallocated General Fund balance. The revised contingency at 2% of net expenditure amounts to £4.666m.

CAPITAL PACK

Capital Plan Summary

1.26 This report summarises the base capital budget previously approved, profiling and phasing changes, cost increases, overall capital commitment and capital funding to bring out the net level of capital funding available. Separate appendices set out proposed additions to the capital plan, the phasing and cost changes and the resulting proposed capital plan.

1.27 There is an increase in the capital funding available of £2.738m as a result of:

- An increase in the General Capital Grant advised for 2017-18 of £2.490m and an increase to the 2016-17 reallocated to future years of £0.004m.
- An increase to the assumption on the likely level of capital grant for 2018-19 and 2019-20 of £1m for each year, raising the estimate from £12m to £13m each year.
- Additional Specific Grant in respect of Cycling, Walking and Safer Streets of £0.119m.
- A reduction in the likely level of capital receipts by £1.875m.

1.28 When the capital plan was updated at the Council meeting on 18 August 2016, there was an under commitment at that time of £1.812m and it was agreed to earmark this as a contingency against implementation and development of the capital programme.

1.29 The revised under commitment, taking into consideration the change in capital funding is £4.550m. There are three proposals to be funded from this balance, leaving an uncommitted balance of £3.231m.

- Legionella related Property Works – estimated to cost around £1.000m.
- Stage 2 submission of Rothesay THI project - £0.200m.
- Cycling, Walking and Safer Streets £0.119m (matched to specific grant).

Corporate Asset Management Strategy

1.30 This report outlines the overall approach to managing the asset base of the Council.

Corporate Asset Management Plan

1.31 This report identifies key issues for this planning cycle in managing the asset base, the proposed actions and any red risk assets not addressed through the proposed Capital Plan.

Service Asset Management Plans

1.32 There are Service Asset Management plans for each department including the Argyll and Bute Health and Social Care Partnership. Each plan summarises the asset base, arrangement for managing assets and key issues for individual departments.

2. RECOMMENDATIONS

2.1 It is recommended that the Council:

a) Note and give consideration to the findings from the Council's budget planning consultation.

b) Approve all service plans, subject to updating the budget figures in line with the budget agreed for 2017-18.

c) Approve the revenue budget for 2017-18 as set out in the revenue budget overview report. This would result in a surplus of £2.580m that would be transferred into the General Fund balance.

d) Agree that officers undertake work to develop a medium to longer term financial strategy incorporating the principles as noted in the revenue budget overview report (paragraph 3.12).

e) Approve the 2017-18 allocation to the Health and Social Care Partnership of £54.223m.

f) Approve the proposals for the fees and charges inflationary increase and resulting increase in income and to approve the two new charges as outlined within the fees and charges report.

g) Note the revenue budget monitoring position as at 31 December 2016 and approve in principle that £0.172m of the Customer Services estimated underspend is earmarked and carried forward to be used to develop detailed business cases in respect of 11 digital transformation options and to support the work of the Transformation Board.

h) Note the financial risks analysis.

i) Approve the contingency level for the General Fund balance at a level of 2% of net expenditure, equivalent to £4.666m and note the report on reserves and balances.

j) Approve the revenue estimates for 2017-18 and that consequently the local tax requirement estimated at £45.476m is funded from Council Tax.

k) Approve the following rates and charges for the year, 2017-18:
   - Council Tax to be paid in respect of a chargeable dwelling in Band "D" of £1,213 representing a 3% increase.
   - Council Tax to be paid in respect of a chargeable dwelling in each of the other valuation bands in accordance with Section 74(1) of the Local Government Finance Act 1992 as amended.
   - Business Rates as determined by Scottish Ministers.

l) Note the previous approval by Policy and Resources Committee on 27 October 2016 and Council on 24 November 2016 to remove the 10% discount on second homes with the additional income retained by the Council.

m) Approve the phasing and cost changes and the proposed additions as set out in appendices 2 and 3 of the capital plan summary report.

n) Approve the capital plan as set out in appendix 4 of the capital plan summary report.

o) Approve the following additions to the capital plan:
   - Legionella related Property Works – estimated to cost around £1.000m.
   - Stage 2 submission of Rothesay THI project - £0.200m.
   - Cycling, Walking and Safer Streets £0.119m (matched to specific grant).

p) Approve the Corporate Asset Management Strategy.

q) Approve the Corporate Asset Management Plan.

r) Approve the Service Asset Management Plans and ICT Group Asset Management Plan.

3. IMPLICATIONS

3.1 Policy – There are policy implications associated with the Service Choices savings options agreed in February 2016 which impact 2017-18 and beyond. The revenue overview report set out the principles that will underpin the council's medium to longer term financial strategy. The capital pack sets out the approach to capital planning.

3.2 Financial – The report outlines the revenue budget position over 2017-18 to 2019-20 and the funding and commitments for the capital plan 2017-20.

3.3 Legal – Any legal implications have and will be considered when developing the savings options required for the revenue budget. The funding for new capital expenditure may not address all the statutory and regulatory requirements in relation to health and safety.

3.4 HR – Any HR implications have and will be considered when developing savings options required for the revenue budget. There are risks that the capital funding available will have an impact on the sustainability of the property design team and the design team within Roads and Amenity Services.

3.5 Equalities – Equality Impact Assessments have been carried out where appropriate for savings options already agreed. Equality Impact Assessments will be a key consideration in developing future savings proposals.

3.6 Risk – There is a separate report assessing financial risks and there is also an overall assessment of risk included within the separate report on Reserves and Balances. In respect of the capital programme, there are risks arounds the level of capital receipts, future grant funding and funding for the new/refurbished schools programme which could result in red risk assets not being addressed.

3.7 Customer Service – There may be some customer service implications arising from the Service Choices savings agreed in February 2016. Future customer service implications will be considered when developing savings options.

Kirsty Flanagan
Head of Strategic Finance
6 February 2017

Policy Lead for Strategic Finance: Councillor Dick Walsh

ARGYLL AND BUTE COUNCIL	**COUNCIL**
STRATEGIC FINANCE	**23 FEBRUARY 2017**

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. The report also sets out the policy for the repayment of loans fund advances for 2017-18.

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 16 February 2017
- Council on 23 February 2017
- Performance Review and Scrutiny (PRS) Committee on 3 March 2017
- Council in April 2017, 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 2016-17 are in the Treasury Indicators to reflect the expected movements in the Council's Capital Financing Requirement.

1.7 The main change proposed to the Investment Strategy is to include Abu Dhabi (UAE) and Qatar on the list of approved countries. This is in line with Capita's recommendation and will help to spread counterparty risk as the institutions in Abu Dhabi (UAE) and Qatar are highly rated in their own right.

1.8 In 2016 new regulations were enacted by the Scottish Parliament, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, under which the Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year.

1.9 The policy on repayment of loans fund advances in respect of capital expenditure by the Council is to ensure that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

1.10 A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve Option 1 and Option 4 from the options for the repayment of loans fund advances:-

1. Statutory method – loans fund advances will be repaid in equal instalments of principal by the annuity method (option 1).
   The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile;

2. Depreciation method – annual repayment of loans fund advances will follow standard depreciation accounting procedures (option 2);

3. Asset life method – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3);

4. Funding / Income profile method – loans fund advances will be repaid by reference to an associated income stream (option 4).

2. RECOMMENDATIONS

2.1 It is recommended that the Council:

a) Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy subject to review by the Performance Review and Scrutiny Committee in March.

b) Approve the use of Option 1 (statutory method) for the repayment of loan fund advances in respect of existing capital expenditure and new advances up to 31 March 2021 at an interest rate of 4.644%, with the exception of spend to save schemes where Option 4 (funding/income profile method) will be used.

c) Approve the ability to use countries with a sovereign rating of AA- and above, as recommended by Capita. This would include the use of Abu Dhabi and Quatar, rated as AA.

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 forms 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.

Kirsty Flanagan
Head of Strategic Finance
6 February 2017

Policy Lead for Strategic Finance: Councillor Dick Walsh

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

APPENDICES
Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy 2017-18

Treasury Management Strategy Statement

and Annual Investment Strategy 2017-2018

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 2017/18

The strategy for 2017/18 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 contract for these services is due to be retendered in 2017)

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 2017/18 – 2019/20

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. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Community Services	7,747	11,301	14,736	5,757	1,940
Argyll and Bute HSCP	508	1,713	387	330	0
Customer Services	6,473	6,104	3,129	1,284	1,680
Development and Infrastructure Services	13,020	16,412	17,525	15,659	14,279
Unallocated Capital	0	0	3,231	0	0
Total	**27,748**	**35,530**	**39,008**	**23,030**	**17,899**

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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total Capital Expenditure	27,748	35,530	39,008	23,030	17,899
Financed by:					
Capital Receipts	1,074	2,038	11,318	450	250
Capital Grants	16,922	15,094	13,576	13,296	13,297
Capital Reserves					
Revenue	743	4,187	6,404	1,500	6,274
Net Financing need for the year	**9,009**	**14,211**	**7,710**	**7,784**	**-1,922**

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 prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing. From 1 April 2016, authorities may choose whether to use scheduled debt amortisation, (loans pool charges), or another suitable method of calculation in order to repay borrowing.

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 £76m of such schemes within the CFR. This will increase in 2018 when the funding for the new schools is recognised on the Council's balance sheet.

The Council is asked to approve the CFR projections below:

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
Opening CFR	257,556	253,896	257,324	304,627	302,211
Closing CFR	253,896	257,324	304,627	302,211	291,057
Movement in CFR	**-3,660**	**3,428**	**47,303**	**-2,416**	**-11,154**
Movement in CFR represented by					
Net financing need for the year (above)	9,009	14,211	57,710	7,784	-1,922
Less scheduled debt Amortisation	12,669	10,783	10,407	10,200	9,232
Movement in CFR	**-3,660**	**3,428**	**47,303**	**-2,416**	**-11,154**

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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Expected Investments	46,457	58,000	53,000	47,000	42,000

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 2016, 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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt as 1st April	173,379	158,090	162,490	153,490	147,990
Change in Debt (In Year)	-15,289	4,400	-9,000	-5,500	-6,500
Other long-term liabilities (OLTL) at 1st April	77,871	75,994	74,059	122,051	119,934
Change in OLTL (In Year)	-1,877	-1,935	47,992	-2,117	-2,268
Actual gross debt at 31st March	**234,084**	**236,549**	**275,541**	**267,924**	**259,156**
The Capital Financing Requirement	**253,896**	**257,324**	**304,627**	**302,211**	**291,057**
Under / (Over) borrowing	**19,812**	**20,775**	**29,086**	**34,287**	**31,901**

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 2017/18 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 this 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 Boundry £'m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	179	189	203	203	194
Other long term liabilities	80	80	130	130	130
Total	**259**	**269**	**333**	**333**	**324**

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.

a) 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.

b) The Council is asked to approve the following authorised limit:

Authorised Limit £'m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	184	194	208	208	199
Other long term liabilities	83	83	133	133	133
Total	**267**	**277**	**341**	**341**	**332**

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.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
    - Italian constitutional referendum 04.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election 15.3.17;
    - French presidential election April/May 2017;
    - French National Assembly election June 2017;
    - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in 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.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- 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.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;

- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference 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 still an issue to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 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. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

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 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 5.4 and 5.5. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness policy

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

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Enhanced cash funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced cash 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 our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a 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.

4.3 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. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment strategy

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

Investment returns expectations. Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

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

	Now
2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

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			
£m	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	20	20	20

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 to100 days) in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded.

4.6 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.

4.7 External fund managers

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

4.8 Policy on the Use of External Service Providers

The Council uses Capita Asset Services as its extenal 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 opon external service providers.

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

4.8 Scheme of Delegation

Please see Appendix 5.7.

4.9 Role of the Section 95 Officer

Please see Appendix 5.8

4.10 Treasury Management Policy

Please see Appendix 5.9

5. APPENDICES

5.1 Prudential and treasury indicators

5.2 Interest rate forecasts

5.3 Economic background

5.4 Treasury management practice 1 – credit and counterparty risk management

5.5 Approved countries for investments

5.6 Treasury management scheme of delegation

5.7 The treasury management role of the section 95 officer

5.8 Treasury Management Policy

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2017/18 – 2019/20

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.

5.1.1 Statutory repayment of loans fund advances

In 2016 the Scottish Parliament enacted new regulations in respect of management of capital finance and accounting in Scotland (The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016) under which the Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to Councils so long as a prudent provision is made each year.

For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method (option 1)**, with all loans fund advances being repaid by the annuity method.

For loans fund advances made after 1 April 2016, the policy for the repayment of loans advances can be by:

1. **Statutory method** – loans fund advances will be repaid in equal instalments of principal by the annuity method (option 1).
   The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile;

2. **Depreciation method** – annual repayment of loans fund advances will follow standard depreciation accounting procedures (option 2);

3. **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3);

4. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (option 4).

The annuity rate applied to the loans fund repayments was based on historic interest rates and is currently 4.644%. However, under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application. The result of this review suggests that the annuity rate of 4.644% is still applicable.

The Council is recommended to approve:

The use of Option 1 for the repayment of loan fund advances in respect of existing capital expenditure and new advances up to 31 March 2021 at an interest rate of 4.644%, with the exception of spend to save schemes where the repayments will be made under option 4.

5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	7.95%	7.38%	7.21%	7.03%	6.61%

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

b. Incremental impact of capital investment decisions on council tax

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

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	18.36	28.97	15.72	15.87	-3.92

5.1.3 Treasury indicators for debt

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	**2017/18**	**2018/19**	**2019/20**
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 2017/18			
		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 to 20 years		0%	80%
20 years to 30 years		0%	80%
30 years to 40 years		0%	80%
40 years to 50 years		0%	80%
Maturity structure of variable interest rate borrowing 2017/18			
		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%	30%
10 years to 20 years		0%	30%
20 years to 30 years		0%	30%
30 years to 40 years		0%	30%
40 years to 50 years		0%	30%

5.2 INTEREST RATE FORECASTS 2017 - 2020

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-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

5.3 ECONOMIC BACKGROUND

UK. **GDP growth rates** in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a ‘business as usual’ mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics’ GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do ‘whatever is needed’ i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers’ survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

<u>USA.</u> The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.
- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

5.4 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 and 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 except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown): - (Capita Asset Services note – please specify any such instruments should you use them)

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 which 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 of the total portfolio 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’.

1. 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 of the total portfolio 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 Cash Funds (ECFs).** 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 (see note 2)	UK sovereign rating or note 1	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	100	**1 Year**
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	UK Sovereign Rating	term	no	50	**1 Year**
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Green	term	yes	50	**1 Year**

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 cash funds with a credit score of 1.25	AAA	T+1 to T+5	yes	100	1 Year
4. Enhanced cash 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	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA	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	Green	Sale T+0	yes	50	2 Years
Commercial paper other	Green	Sale T+0	yes	20	2 Years
Floating rate notes	Green	Sale T+0	yes	20	2 Years
Corporate Bonds other	Green	Sale T+3	yes	20	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	UK Sovereign Rating	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 cash funds with a credit score of 1.25	AAA	T+>1	yes	100	1 Year
4. Enhanced cash 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	Green	Sale T+1	yes	50	2 Years
Commercial paper other	Green	Sale T+1	yes	50	2 Years
Corporate Bonds other	Green	Sale T+3	yes	20	2 Years
Floating Rate Notes	Green	Sale T+1	yes	20	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.

5.5 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 and maximum 1 year.	£unlimited and 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 cash funds (ECFs) **(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 ECFs have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£10m 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'sDay 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.	£10m per counterparty maximum 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 and maximum 1 year.	£20% and maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Other types of investments				
a. 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%.
b. 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 and maximum 5 years.	10% and maximum 5 years.
c. 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
d. 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%.
e. 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
f. 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
g. 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	£5m and a maximum of 30 years.	N/A

		assessment of the project and borrower.		
Type of Investment	**Treasury Risks**	**Mitigating Controls**	**Council Limits**	**Common Good Limits**
h. 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 Head of Strategic 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 policy to 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.

5.6 APPROVED COUNTRIES FOR INVESTMENTS

AAA

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

AA+

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

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

5.7 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.

5.8 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.

5.9 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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