Appendix 1

EAST DORSET DISTRICT COUNCIL

TREASURY MANAGEMENT STRATEGY

1. Objectives of the Strategy

1.1 The key objectives to be followed in 2015/16 are:

(a) Borrowing (Should borrowing be considered)

i) To minimise the revenue costs of debt commensurate with exposure to future risk.

ii) To manage the Council's debt maturity profile i.e. to leave no one future year with a disproportionately high level of debt principal repayments that could lead to difficulties in terms of re-borrowing.

iii) To borrow in accordance with forecasted average future interest rates, (i.e., current best practice dictates that we borrow using short term and/or variable finance when rates are 'high', or use long term and fixed rate loans when rates are 'low'. Similarly, maturity loans can be taken when rates are relatively low, to lock in the principal for the maximum period, annuity loans and equal instalments of principal loans when rates are considered higher).

iv) To monitor and review the level of variable interest rate loans in order to take advantage of future forecasted interest rate movements.

(b) *Investment*

i) The Council's investment priority is to maintain the security of capital.

ii) To maintain policy flexibility through liquidity of its investments.

iii) The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

2. Prospects for Interest Rates 2015/16

2.1 The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.25%.

Arlingclose central interest rate forecast – December 2014

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield
Q1 2015	0.50	0.60	1.00	2.55
Q2 2015	0.50	0.75	1.05	2.65
Q3 2015	0.75	0.90	1.20	2.75
Q4 2015	0.75	1.05	1.35	2.85
H1 2016	1.00	1.20	1.50	2.95
H2 2016	1.25	1.50	1.80	3.05
H1 2017	1.50	1.70	2.10	3.15
H2 2017	1.75	1.90	2.30	3.25

3. The Strategy for 2015/16

Capital finance

3.1 To utilise all existing usable capital receipts and revenue funding and where possible to maximise the use of capital grants. The Council has no immediate plans to borrow but consideration of a number of strategic projects is taking place which may require investment. Should borrowing be required to progress the projects a full business case will be presented to Council.

Borrowing

3.2 At the start of the current financial year the Council has no external debt.

Temporary investments

3.3 The Council continues to invest its temporary surplus funds prudently in accordance with its Treasury Management Policy. Priority is given to security and liquidity rather than yield, although it is reasonable to seek the highest rate of interest consistent with the proper levels of security and liquidity.

3.4 The Council may place large amounts of money with the Debt Management Office at the Bank of England when overall market risks increase to unacceptable levels.

3.5 The Council banks with HSBC which currently meets the minimum credit criteria of A- (or equivalent) long term rating. It should be noted that if the credit rating falls below the authority's minimum criteria, HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements for the respective councils. However, the situation will be kept under review by the Head of Finance.

3.6 **The authority's investments are currently unsecured. The potential for future bail-in of banks increases the risk of any potential investments with those banks that might in the future be subject to a bail in. If this was to happen the authority could be at risk of losing a percentage of any investment with a bank subject to bail in. In order to mitigate this risk, the Responsible Financial Officer will consider the future use of Secured Investments. However at this time these are not used by other Local Authorities. The Responsible Financial Officer will consider future use of such investments by other Local Authorities and advice by the Authority's treasury management advisor Arlingclose and any future change in the Strategy, to include secured investments, will come back to the Council for Approval. Secured Investments include;-**

- **Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.**

4. Approved Organisations for Investment

4.1 In the main the Council intends to use Specified investments, these are short-term investments offering high security and high liquidity. To qualify automatically as Specified Investments the investment must be:

- in sterling and with a maturity of no more than 364 days;
- such short-term investments made with the UK Government or a local authority or parish council will automatically count as specified investments;
- in addition, short-term sterling investments with bodies or investment schemes with "high credit ratings" (i.e. with a Fitch Long, or equivalent rating of A- or better).

4.2 The Council does have plans to use non specified investments but limited to:

- unrated Building Societies as advised by the Council's Treasury Management Advisors, Arlingclose.
- Banks with a rating of long term rating of Fitch BBB+, Moody's BAA1 or S&P BBB+ only as advised by the Council's Treasury Management Advisors, Arlingclose.

5. Annual Minimum Revenue Provision Statement 2015/16

5.1 Due to the Council not having any debt a Minimum Revenue Provision is not required. Where a Council does not finance capital expenditure from grants, capital receipts, third party contributions or direct revenue contributions, it will finance it by making revenue provision from future years' revenue accounts. Regulation requires that the Council shall determine an amount of minimum revenue provision that it considers to be prudent.

6. Treasury Management Policy, Practices and Schedules

6.1 A copy of the Policy, Practices and Schedules is attached.

7. External Fund Managers and Treasury Advisers

7.1 The Council re-appointed Arlingclose as its treasury management advisers from October 2014 . The company provides advice and support to the Council in the following ways:

- Economic and interest rate analysis
- Debt Management Advice including advice on Debt Rescheduling and the timing of new borrowing
- Credit Rating information from the three main credit rating agencies
- Technical support on treasury matters

7.2 Whilst the advisers provide support to the Council's treasury function, under current market rules and the CIPFA Treasury Management Code of Practice the final decision on treasury matters remains with the Council.

Treasury Management Policy Statement

Definition

The Council defines its treasury management activities as the management of the Council'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.

Objectives

The Council 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. Priority for investment decisions will be based on security and liquidity.

The Council 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.

Management and Decision Making

The Head of Finance, being the officer appointed to have responsibility for the Council's financial affairs for the purpose of Section 151 of the Local Government Act 1972, shall be responsible for the management of the Council's funds and for reporting to the Council and Committees on these affairs.

All executive decisions on borrowing, investment or financing shall be delegated to the Head of Finance and through that post to staff, who shall be required to act in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice (Revised 2011).

Methods of Raising Finance

The following methods of raising finance may be adopted:

- Revenue Receipts
- Capital Receipts
- Internal Funds
- Borrowing from the Public Works Loans Board **or its successor body**
- Borrowing from institutions included on the Bank of England's approved list
- Borrowing from other Local Authorities
- Leasing

No other methods of raising funds may be adopted without the approval of the Council. Limits on borrowing shall be as determined annually by the Council under the requirements of the Local Government Act 2003.

Approved Organisations for Investment

Surplus funds may be invested in the following institutions:

a) The Council's account holding bank for deposits requiring less than 24 hours notice of withdrawal irrespective of its credit rating up to a maximum of £8m

b) Any bank or building society with a UK branch, with at least the following ratings:

   i. long term Fitch A- , Moody's A3, S & P A- and
   ii. Sovereign Fitch AA, Moody's Aa2, S & P AA

c) An unrated Building Society with society assets in excess of £250m, only as advised by the Council's Treasury Management Advisors, Arlingclose, up to a maximum investment per institution of £1m for a maximum time period of 100 days. The maximum overall limit for unspecified investments will be £3m.

d) A bank with a long term rating of Fitch BBB+, Moody's BAA1 or S&P BBB+ only as advised by the Council's Treasury Management Advisors, Arlingclose, up to a maximum investment per institution of £1m for a maximum time period of 100 days. The maximum overall limit for Banks in this criterion will be £3m.

e) Any British Local Authority, whether rated or not, up to a maximum of £2m. The maximum time limit for a Local Authority investment is 364 days.

f) AAA rated Money Market Funds, up to a maximum of £2m for Funds with assets up to £1bn, and up to a maximum of £3m for Funds with assets of £1bn or more. The maximum amount that can be placed with a single Money Market Fund provider is £3m. The maximum amount of the Council's total portfolio that can be held with MMFs is £10m . The maximum notice period for a MMF investment is 364 days.

g) UK Government

The time limit and investment limit for banks and building societies is linked to the credit rating of the counterparty as follows.

Credit Rating (lowest)	Time limit	Counterparty Limit
AAA, Aaa, AAA	364 days	£3 million
AA+, Aa1, AA+	364 days	£3 million
AA, Aa2, AA	364 days	£2 million
AA-, Aa3, AA-	364 days	£2 million
A+, A1, A+	364 days	£2 million
A, A2, A	3 months	£2 million
A-, A3, A-	3 months	£2 million

The rating of each institution by Fitch, Moody's and Standard and Poor will be confirmed before each transaction is entered into. If there is a negative watch/review against any credit rating of the institution which, if applied, will take it below the minimum rating defined in this policy, then no further investments may be made with that institution until such time as the rating meets the minimum. Any existing funds will be withdrawn as they mature or at any earlier time provided that no penalty is incurred.

For a counterparty to be eligible for investment they must have a minimum of two ratings from the three rating agencies.

The maximum amount that may be invested with any one non UK country, UK bank, institution, or group of institutions with the same parent, is shown in the table according to the credit rating of the counterparty. There will be no limit for money deposited with the UK Government.

The Section 151 Officer and Deputy Section 151 Officer can authorise a transaction which exceeds the maximum investment limit with any one institution and must record the reason for any departure from the policy and report this to Members. In such cases the appropriate authorising signature should be recorded in the central register.

Risk Assessment and Credit Rating

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- **no new investments will be made,**
- **any existing investments that can be recalled or sold at no cost will be, and**
- **full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.**

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Interest Rate Exposure

The maximum and minimum proportion of interest on outstanding debt which may be subject to fixed or variable rates of interest shall be as determined annually by the Council under the requirements of the Local Government Act 2003.