Council - 15 September 2015 EXECUTIVE SUMMARY OF AGENDA ITEM 7

Report title: Treasury Management Annual Report 2014/15

Wards affected: City-Wide

Strategic Director of Business Change

Report Author: Service Director - Finance

RECOMMENDATION:

That the Treasury Management annual report for 2014/15 is noted

To endorse the inclusion of “Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management” within the Treasury Management Strategy.

Key background / detail:

a. Purpose of report:

The Council is required to produce an annual treasury management review of activities and the actual treasury indicators in accordance with Local Government regulations.

b. Key details:

- The Council has complied with treasury management legislative and regulatory requirements during the period and all transactions were in accordance with the approved Treasury Management Strategy.

- No additional borrowing was undertaken in the year. The Council’s debt at 31 March 2015 was £415m (£415m at 31st March 2014) with an average interest rate of 4.81%.

- Investments were £191m at the 31 March 2015 (£196m at 31 March 2014) with an average rate of 0.69% in 2014/15 (0.89% in 2013/14).

Agenda Item 7

Bristol City Council
Full Council

15 September 2015

Report of: **Strategic Director of Business Change**

Title: **Treasury Management Annual Report 2014/15**

Ward: **Citywide**

RECOMMENDATION:

That the Treasury Management annual report for 2014/15 is noted.

To endorse the inclusion of "Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management" within the Treasury Management Strategy.

Purpose of the report:

1. Under the CIPFA Code of Practice on Treasury Management (the Code) the Section 151 Officer is required to produce an outturn report on activities in the year to account for how the Strategy set at the start of the year has been implemented. This report meets the requirements of both the Code and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Background

2. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management (the Code), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also requires reports to full Council mid-year and after the year end.

3. The Code also requires the Council to nominate one of its Committees to have responsibility for scrutiny of its treasury management strategy, policy and activity. Council has delegated that responsibility to the Audit Committee. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

4. Treasury management is defined 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."

Economic Background for 2014/15

5. The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. However, in May the Bank revised its forward guidance, a combination of weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded. Expectations for the first increase in Bank Rate receded as growth remained dependent on buoyant consumer demand.

6. In the second half of 2014 financial markets were "caught out" by a halving of the oil price and the collapse of the "peg" between the Swiss franc and the euro. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

7. Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond

Treasury position as at 31 March 2015

8. The table below indicates the balance of borrowing and investments at the beginning and end of the year:

	31 March 2014		31 March 2015	
	£m	**Rate**	**£m**	**Rate**
Long Term Debt (fixed rates) - PWLB	292	5.01%	292	5.09%
Long Term Debt (fixed rates) – Market	123	4.14%	123	4.14%
Short Term Borrowing	-	-	-	-
Total borrowing	**415**	**4.76%**	**415**	**4.81%**
Investments	196	0.89%	191	0.69%
Net Borrowing Position	**219**		**224**	

9. The total borrowing excludes accrued interest of £4m (£4m at 31/3/14) and the outstanding finance on PFI and embedded leases of £168m at 31 March 2015 (£174m at 31/3/14).

Long Term Borrowing – Strategy and outturn

10. The 2014–2017 Treasury Strategy (approved 18th February 2014) identified a medium term borrowing requirement of £150m to support the existing and future Capital Programme with the debt servicing costs predominately met from revenue savings from capital investment. The £150m was planned to be borrowed in 2016/17 (£70m) and 2017/18 (£80m).

11. The Council's Strategy was to defer borrowing while it has significant levels of cash balances (£196m at March 2014). Deferring borrowing will reduce the "net" revenue interest cost of the Authority as well as reducing the Councils exposure to counter party risk for its investments. The Council recognises that utilising investments in lieu of borrowing clearly has a finite duration and that future borrowing may be required to support capital expenditure (see 2014/15 Treasury Management Strategy approved by Council 18th February 2014).

12. Borrowing activity in year was in accordance with the Strategy approved at the beginning of the year**:**

- **Borrowing** – No new borrowing was drawn in 2014/15.
- **Rescheduling –** No debt rescheduling activity was undertaken in 2014/15.
- **Repayment –** No debt which matured within the period.

Annual Investment Strategy and Outturn

13. Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around

quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

14. Security of capital remained the Council's main investment objective. This was maintained by following the following the Council's policy for assessing institutions to which the council might lend. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

15. Investments held by the Council - the Council maintained an average balance of £248m (£263m 2013/14) of internally managed funds. The internally managed funds received an average return of 0.69% (0.89% 2013/14). The comparable performance indicator is the average 7-day LIBID rate, which was 0.35%.

16. The Treasury Management Strategy was approved by Full Council on the 17th February 2015. To support the strategy requires the inclusion of "Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management", Appendix 2 attached. This provides additional information and criteria for the placement of investments and durations.

Compliance with Treasury Limits and Treasury Related Prudential Indicators

17. The Council can confirm that:

- All treasury related transactions were undertaken by authorised officers and within the limits and parameters approved by the Council;

- All investments were to counterparties on the approved lending list

- The Council operated within the Prudential Indicators within Appendix 1.

Performance Indicators set for 2014/15

18. One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt, and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. The Council's performance indicators were set out in the Annual Treasury Management Strategy.

19. The following performance indicators have been set:

- Average rate of borrowing for the year compared to average available - No short-term borrowing was undertaken in 2014/15.
- No long-term borrowing was undertaken in 2014/15. The target rate for the year is 25 year PWLB, the annual average for the year was 3.74%
- Debt – Average rate movement year on year
- Pool rate in 2014/15: 4.81 %
- Pool rate in 2013/14: 4.76%

- Investments – Internal returns above the 7 day LIBID rate
- Average rate for the year 0.69% vs. annual average 7 day LIBID of 0.35%

Consultation and scrutiny input

20. The report does not require any internal consultation to be undertaken. The report has been discussed with the Council's external treasury management advisers.

Risk Assessment

21. The principal risks associated with treasury management are:

- The risk of loss as a result of failure of counterparties

- This is mitigated by limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties;

- The risk of loss as a result of borrowing at high rates of interest/lending at low rates of interest

- This is mitigated by planning and undertaking borrowing and lending in the light of assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Public sector equality duties:

22. There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Environmental checklist / eco impact assessment

23. There are no proposals in this report which have environmental impacts

Legal and Resource Implications

24. Legal**-** the Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

    Legal advice provided by Shahzia Daya

Financial

(a) Revenue

25. The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan.

Advice given by Jon Clayton (Principal Accountant)

(b) Capital

26. There is no direct capital investment implications contained within this report.

Land

27. There are no direct implications for this report.

Personnel

28. There are no direct implications for this report.

Appendices:

Appendix 1: Treasury Management Annual Report 2014/15

Appendix 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management. To accompany the Treasury Management Strategy approved by Full Council on the 17th February 2015.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

29. Treasury Management Strategy 2014/15
https://www.bristol.gov.uk/committee/2014/ta/ta000/0218_6.pdf

Appendix 1

Annual Report on the Treasury Management Service 2014/15 (Incorporating Outturn Prudential Indicators)

Introduction

1. This report summarises:

- The capital activity during the year
- What resources the Council applied to pay for this activity;
- The impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The reporting of the required prudential indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- A summary of interest rate movements in the year;
- The detailed debt activity;
- The detailed investment activity;
- Icelandic Banks; and
- Local Issues

The Council's Capital Expenditure and Financing 2014/15

2. The Council undertakes capital expenditure to invest in the acquisition and enhancement of long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2013/14 Actual £m	**2014/15 Original Budget £m**	**2014/15 Final Budget £m**	**2014/15 Actual £m**
Non-HRA capital expenditure	115	191	159	121
HRA capital expenditure	31	57	33	32
Total capital expenditure	**146**	**248**	**192**	**153**
Resourced by:				
Capital receipts	7	30	15	15
Capital grants	98	90	60	55
HRA Self Financing	29	36	30	30
Prudential borrowing	1	67	83	47
Revenue	11	25	4	6
Total Resources	**146**	**248**	**192**	**153**

The Council's Overall Borrowing Need

4. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. It represents 2014/15 and prior years' net capital expenditure that has not yet been paid for by revenue or other resources.

5. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

6. Reducing the CFR – Whilst under treasury management arrangements actual debt can be borrowed or repaid at any time within the confines of the annual treasury strategy, the Council is required to make an annual revenue charge to reduce the CFR – effectively a repayment of the Non-Housing Revenue Account (HRA) borrowing need. There is no statutory requirement to reduce the HRA CFR.

7. This statutory revenue charge is called the Minimum Revenue Provision - MRP. The total CFR can also be reduced by:

   - the application of additional capital resources (such as unapplied capital receipts); or

- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

8. The Council's 2014/15 MRP Policy (as required by CLG Guidance) was approved on 18th February 2014.

9. The Council's CFR for the year is shown below, and represents a key prudential indicator. Accounting rule changes in previous years has meant that PFI schemes are now included on the balance sheet, which increases the Council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR	General Fund 31 March 2014 Actual £m	General Fund 31 March 2015 Actual £m	HRA 31 March 2014 Actual £m	HRA 31 March 2015 Actual £m	Total CFR 31 March 2015 Actual £m
Opening balance	**456**	**439**	**245**	**245**	**684**
Add unfinanced capital expenditure (as above)	1	47	-	-	47
Less MRP/VRP	(13)	(10)	-	-	(10)
Less PFI & finance lease repayments	(5)	(6)	-	-	(6)
Closing balance	**439**	**470**	**245**	**245**	**715**

Treasury Position at 31 March 2015

10. Whilst the Council's gauge of its underlying need to borrow is the CFR, Finance can manage the Council's actual borrowing position by either:

- Borrowing to the CFR; or
- Choosing to utilise some temporary internal cash flow funds in lieu of borrowing or
- Borrowing for future increases in the CFR (borrowing in advance of need).

11. The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

	31 March 2014		**31 March 2015**	
	Principal £m	**Average Rate**	**Principal £m**	**Average Rate**
Fixed Interest Rate Debt	415	4.77%	415	4.81%
Variable Interest Rate Debt	-	-	-	-
PFI & embedded leases	168	-	162	-
Total Debt	**583**	**4.77%**	**577**	**4.81%**
Capital Financing Requirement	684		715	
Over/(Under) borrowing	(101)		(138)	
Investment position				
Investments (Fixed & Call)	196	0.89%	191	0.69%
Net borrowing position (excl leasing arrangements)	**219**	**-**	**224**	**-**

12. The fixed Interest rate debt is apportioned between the General Fund and HRA as set out in the table below.

Fixed Interest Rate Debt	**31 March 2014 £m**		**31 March 2015 £m**	
	Principal £m	**Average Rate**	**Principal £m**	**Average Rate**
General Fund	175	4.96%	175	4.98%
HRA	240	4.62%	240	4.66%
Total	415	4.77%	415	4.81%

13. The maturity structure of the debt portfolio (excluding accrued interest) was as follows:

	Approved Min Limit	**Approved Max Limit**	**31 March 2014**		**31 March 2015**	
			Actual £m	**%**	**Actual £m**	**%**
Under 12 Months	0%	20%	-	0.00%	-	0.00%
1 to 2 years	0%	20%	-	0.00%	-	0.00%
2 to 5 years	0%	40%	3	0.72%	3	0.72%
5 to 10 years	0%	40%	15	3.61%	15	3.61%
10 years and over	25%	100%	397	95.67%	397	95.67%
Total			**415**	**100%**	**415**	**100%**

14. The authority borrowing strategy is to delay borrowing and use its existing resources to support the Capital Programme to reduce its exposure to counterparty risk. Therefore the authority has not undertaken any new borrowing during the year.

Prudential Indicators and Compliance Issues

15. Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

16. **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2014 Actual £m	**31 March 2015 Actual £m**
Net borrowing position	219	224
CFR (excluding PFI)	516	553

17. **The Authorised Limit** - The Authorised Limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003. Once agreed the authorised limit cannot be breached. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its Authorised Limit.

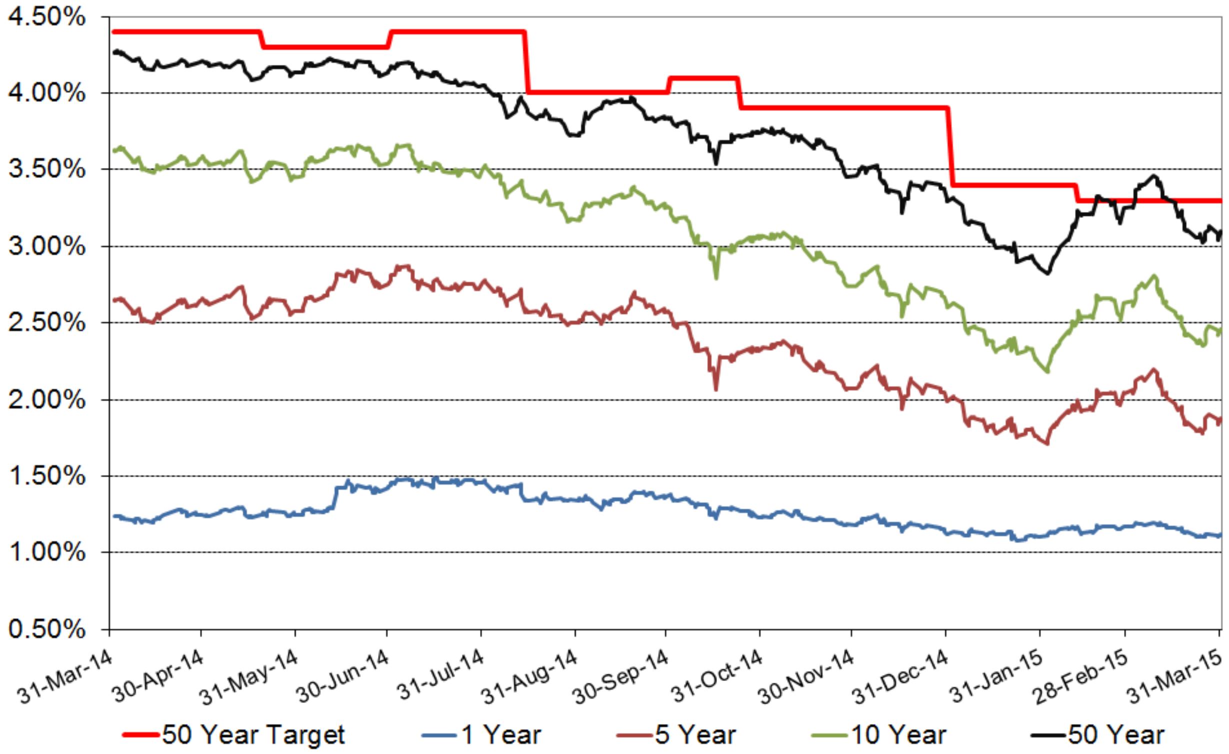
18. **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

19. **Actual financing costs as a proportion of net revenue stream** - This indicator identifies the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2014/15 £m
Authorised Limit	780
Operational Boundary	583
Average gross borrowing position (including PFI)	577
Financing costs as a proportion of net revenue stream: General Fund HRA	 8.77% 8.87%

Borrowing Rates in 2014/15

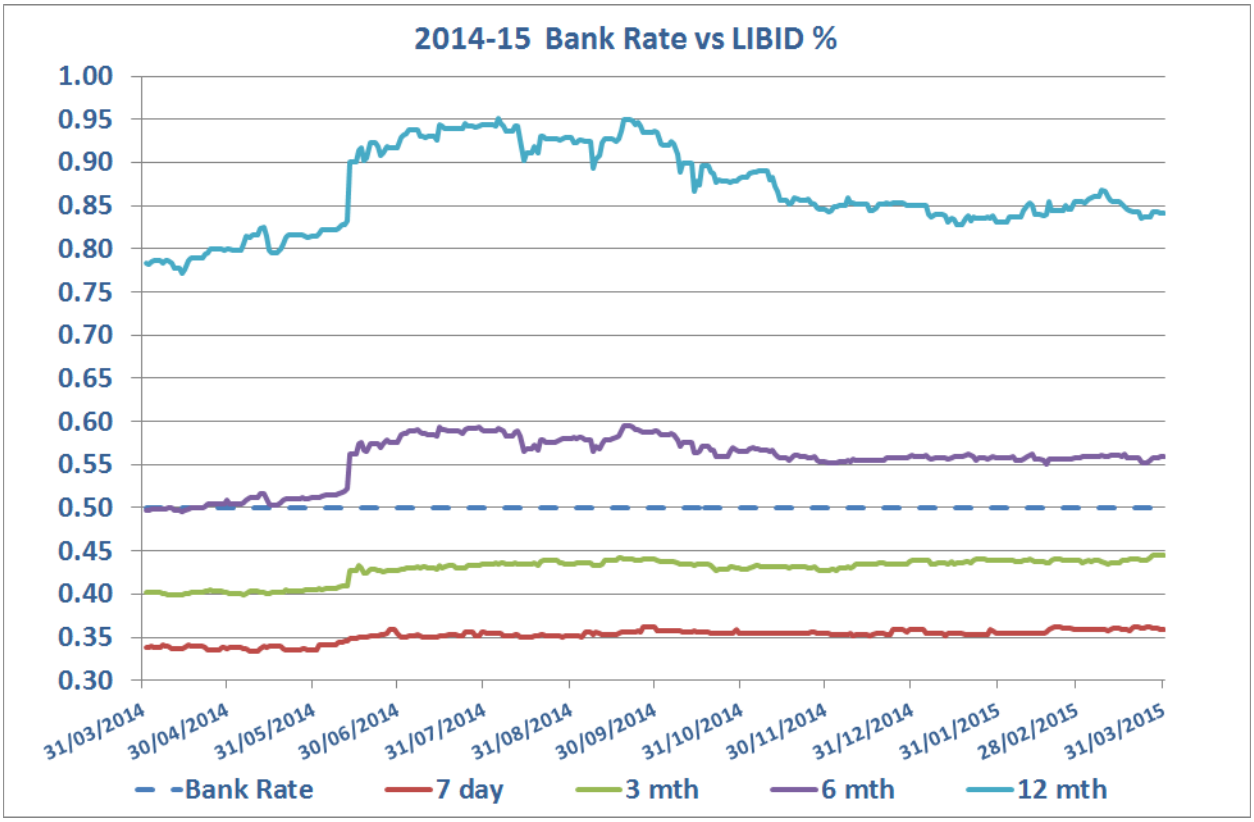
20. PWLB borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



21. **Summary of Debt Transactions –** The overall position of the debt activity resulted in a marginal rise in the average interest rate from 4.77% (31/03/2014) to 4.81%, due to the “full year effect” of the repayment of debt with a lower coupon in January 2014.

Investment Rates in 2014/15

22. Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



23. The Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Council on 18th February 2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Local Issues

24. **Ethical Investment Policy-** The Ethical Investment Policy was approved by Cabinet on 15th December 2011. There are no breaches to report.

Regulatory Framework, Risk and Performance

25. The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

    - The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
    - The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made);
    - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
    - The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
    - The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
    - Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities.
    - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

26. The Council has complied with all of the above relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

27. The Council has ensured that the principles of security, liquidity and yield have been adhered to within the treasury operation. This implies that the safeguarding of the principal investment with a suitable counterparty remains the Council's highest priority followed by liquidity (i.e. ease of access to the principal amount deposited) and yield (i.e. return) on investment.

Appendix 2

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Service Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement (Appendix B).

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.

4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society. For this category this covers bodies with a minimum short term rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is set out below:-

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 higher quality	*AAA*	£40m	5 Years
Banks 1 medium quality	*AA-*	£20m	3 Years
Banks 1 lower quality	*A-*	£10m	1 Year
Banks 2 – part nationalised	N/A	£50m	1 Year
Limit 3 category – Council's banker (not meeting Banks 1/2)	-	£100k	Liquid
Other institutions limit*	-	£30m	1 Year
DMADF	AAA	unlimited	5 Years
Local authorities	-	£40m	5 Years
Money market funds (Including Enhanced MMF)	AAA	£40m	liquid

**The Other Institution Limit will be for Gilt and Supranational investments*

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with (to a maximum of £30m in total):

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings £30m
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£30m
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Minimum
d.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Based on Credit Criteria of Financial Institution
e.	Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to: • Parent company guarantee • Parent company to be a UK institution.	£30m
f.	**Share capital or Loan Capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. There is a higher risk of loss with these	£30m

	types of instruments.	
g.	**Bond funds** – There is a high risk of loss with this type of instrument.	£30m
h.	**Pooled property funds** – The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund.	£30m

In respect of category f and g, these will only be considered after obtaining external advice and subsequent member approval.

Local Authority Mortgage Scheme. Under this scheme the Council is required to place funds with Lloyds Bank Plc (£2m) and Leeds Building Society (£1m) for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified / non specified categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and 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 Service Director - Finance, and if required new counterparties which meet the criteria will be added to the list.