AGENDA ITEM 9

BRISTOL CITY COUNCIL

Resources Scrutiny Commission

27th November 2013

Report of: **Mark Taylor Interim Service Director, Finance**

Title: **Treasury Management Midyear Report for 2013/14**

Ward: **Citywide**

Officer Presenting Report: **Mark Taylor Interim Service Director, Finance**

Contact Telephone Number: **0117 922 2419**

Purpose of the report:

To seek the views of Members of the Resources Scrutiny Commission in respect of the Treasury Management Midyear report for 2013/14.

RECOMMENDATION:

That the Commission consider the Treasury Management Midyear position for 2013/14.

Appendix : Draft Treasury Management Midyear report for 2013/14 for 5 December, 2013 Cabinet meeting.

Agenda Item No

BRISTOL CITY COUNCIL
CABINET
5th December 2013

REPORT TITLE: Treasury Management Mid-Year Report 2013/14

Ward(s) affected by this report: Citywide

Strategic Director: **Section 151 Officer**

Report author: **Mark Taylor – Interim Service Director - Finance**

Contact telephone no. & e-mail address: **Jon Clayton - 0117 922424 jon.clayton@bristol.gov.uk**

RECOMMENDATION for Mayor approval:

1. That the Mid-Year Treasury Management report for 2013/14 is noted.

Purpose of the report:

2. This report meets the treasury management regulatory requirement that the Council receive a mid year treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

3. That the mid-year report is structured to highlight:
   - The economic outlook
   - The actual and proposed treasury management activity (borrowing and investment)
   - The latest progress on the Icelandic Banks;
   - The key changes to the Council's capital activity (the prudential indicators {PIs}

Background

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."

5. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Treasury management operations aim to ensure that cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

6. 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 the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Introduction

7. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in 2011) has been adopted by this Council. The primary requirements of the Code are:

    - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities

    - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives

    - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year

    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions

    - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Resources Scrutiny Commission.

8. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

    - An economic update for the 2013/14 financial year to 30 September 2013;
    - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
    - A review of the Council's investment portfolio for 2013/14;
    - A review of the Council's borrowing strategy for 2013/14;
    - A review of any debt rescheduling undertaken or planned during 2013/14;
    - The Council's capital expenditure and (prudential indicators);

- A review of compliance with Treasury and Prudential Limits for 2013/14

Key Changes to the Treasury and Capital Strategies

9. The 2013 – 2016 Treasury Strategy (approved 26th February 2013) identified a medium term borrowing requirement of £100m to support the existing and future Capital Programme with the debt servicing costs predominately met from revenue savings from capital investment. It was planned to take £20m long term borrowing in 2013/14 to partly refinance a maturing loan (£10m) with the remaining to finance the Capital programme.

10. The recent Capital Programme Monitoring Report (Cabinet 31 October 2013), indicated that delivery of the capital programme remains largely on target.

11. The Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£237m at September 2013, £150m estimated for 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. Whilst there is some evidence of that longer-term borrowing rates are likely to increase marginally, the policy of deferring borrowing remains sound.

12. However, if there is a significant change in markets and long term borrowing is deemed advantageous the authority will borrow over periods determined as the most appropriate to reduce the authorities exposure to interest rate risk.

Analysis of Debt and Investments

13. A summary of the of the Council's debt and Investment position as at 30th September 2013 (including forecast at 31st March 2014) compared with 31st March 2013 is shown in the table below:

Debt & Investments	**31st March 2013**		**31st September 2013**		**31st March 2014**	
	£	**Rate**	**£**	**Rate**	**£**	**Rate**
Long Term Debt - PWLB	£302m	5.01%	£302m	5.01%	£302	5.01%
Long Term Debt – Market	£123m	4.14%	£123m	4.14%	£123	4.14%
Short Term Borrowing	-	-	-	-	-	-
Total Debt	**£425m**	**4.76%**	**£425m**	**4.76%**	**£425m**	**£425m**
Investment	£176m	1.16%	£237m	0.88%	£150m	0.86%
Net Borrowing Position	**£249m**		**£188m**		**£275m**	

14. We are currently achieving a return of 0.88% on our investments, with long term interest rates expected to remain at or around 4.4% (for 25 year term).

Economic Update to review

15. During 2013/14 economic indicators suggested that the economy is recovering, be it from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Q2. There have been signs of renewed household spending, with increases in retail sales, mortgages, house prices and new car registrations.

16. The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from pre 2008.

17. Monetary policy remains unchanged, bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the MPC provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which is not expected until mid 2016. However, 7% is only a trigger point at which the Monetary Policy Committee (MPC) will review the Bank Rate, it does not necessarily follow that it will take action to change it. The three month to July average rate was 7.7%.

18. Consumer Price Inflation (CPI) fell marginally from a peak of 2.9% in June to 2.7% in August. The Bank of England expects inflation to fall back to the 2.0% target during 2015.

Outlook for the next six months of 2013/14

19. Economic forecasting remains difficult with many external influences. Volatility in bond yields is likely during 2013/14 as investor fears and confidence change between favouring more risky assets i.e. equities, and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations
- The potential for a significant increase in negative reactions in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in generating economic growth to correct their budget deficits.
- The Italian political situation is frail and unstable: the coalition government fell on 29 September.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

Upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of Quantitative Easing (QE) operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries.

Near-term, there is some residual risk of further QE if there is a dip in strong growth or if the MPC were to decide to take action to combat the market's expectations of an early first increase in Bank Rate.

If the MPC does takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts.

The tension in the US over passing a Federal budget for the new financial year starting and raising the debt ceiling could also see bond yields temporarily fall until agreement is reached.

20. Interest Rate Forecasts

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
5yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
10yr PWLB rate	3.70%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
25yr PWLB rate	4.40%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
50yr PWLB rate	4.50%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%

PWLB (Public Works Loan Board – Maturity Certainty Rates)

21. Expectations for the first change in Bank Rate in the UK are now dependent on how to forecast when unemployment is likely to fall to 7%.

22. Financial markets have taken a different view to the MPC and have aggressively raised short term interest rates and gilt yields due to their view that the strength of economic recovery is rapid that unemployment will fall much faster than the Bank of England forecasts. They expect the first increase in Bank Rate to be in quarter 4 of 2014.

23. There is scope to disagree with this view as the economic downturn since 2008 was remarkable for the way in which unemployment did not rise to anywhere near the extent likely, unlike in previous recessions. This meant that labour was retained, productivity fell and now, as the MPC expects, there is major potential for unemployment to fall only slowly as existing labour levels are worked more intensively and productivity rises back up again.

24. The size of the work force is also expected to increase relatively rapidly and there are many currently self-employed / part time employed workers who are seeking full time employment.

25. Our financial advisors take the view that the unemployment rate is not likely to come down as quickly as the financial markets are currently expecting and that the MPC view is more realistic. The prospects for any increase in Bank Rate before 2016 are therefore seen as being limited. However, some forecasters are forecasting that even the Bank of England forecast is too optimistic as to when the 7% level will be reached and so do not expect the first increase in Bank Rate until spring 2017.

Treasury Management Strategy Statement and Annual Investment Strategy update

26. The Treasury Management Strategy Statement (TMSS) for 2013/14 was approved by this Council on 26th February 2013

- There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes.

Investment Portfolio 2013/14

27. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

28. As set out in the “Economic Update”, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the introduction of the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low for the medium term.

29. The Council held £237m of investments as at 30 September 2013 with an average maturity of 90 days (£184m at 31 March 2013). These investments are predominately with nationalised banks and money market funds. The investment portfolio yield for the first six months of the year is 0.88%. The standard comparator for investment performance is the benchmark 7 day rate, which for the period was 0.36%. The benchmark for 3, 6, 9, and 12 months are 0.38%, 0.47% and 076% respectively.

30. The approved limits within the Annual Investment Strategy in respect of Money Market Funds were temporarily breached during May to July 2013. The situation has been resolved by extending the number of money market funds and deposit accounts held.

Investment Counterparty criteria

31. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

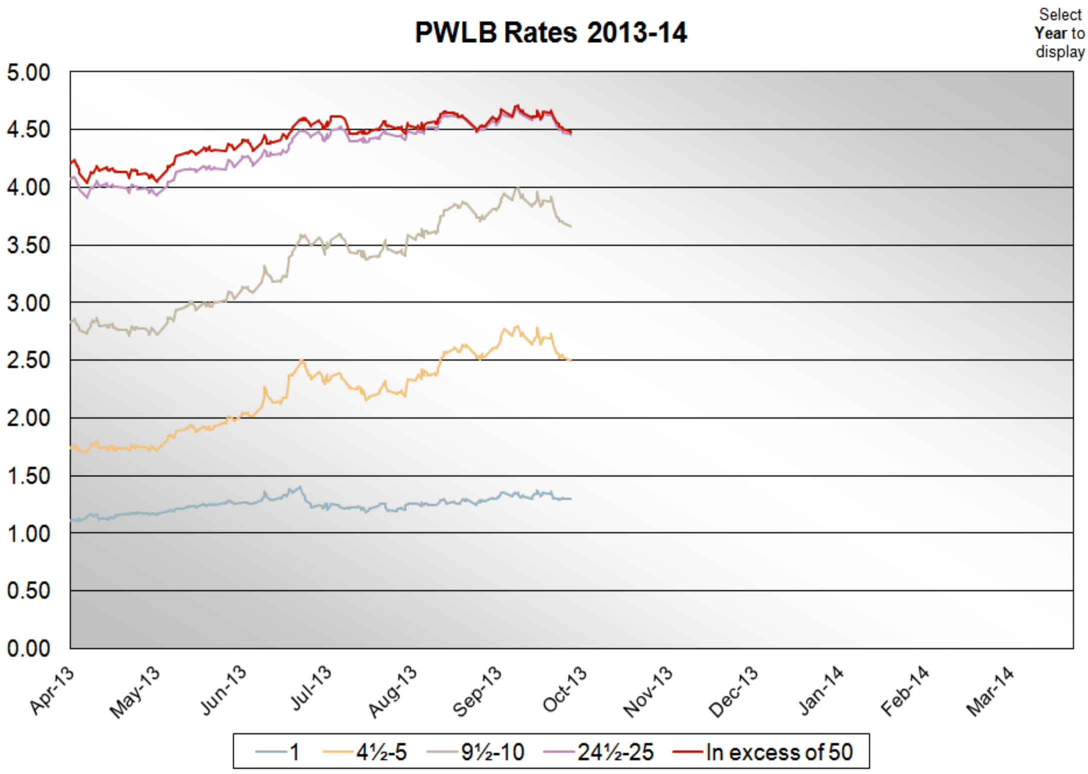
Borrowing

32. The Capital Financing Requirement (CFR) denotes the Council’s underlying need to borrow for capital purposes. The Council’s CFR at 31 March 2014 is estimated to be £707m.

33. The balance of borrowing between external (e.g. PWLB or money markets) and internal (utilising internal resources e.g. reserves, to defer external borrowing) is generally driven by market conditions and forecasts of future cash flows and interest rates. At the 31st March 2013 the Council had external borrowings of £599m and has utilised £102m of internal cash in lieu of borrowing.

34. This is a prudent and cost effective approach in the current economic climate but will require on-going monitoring in the event that upside risk to gilt yields prevails. Due to the overall financial position and cash balances, the planned £20m of new external borrowing has been deferred to future periods.

35. As outlined the general trend is an increase in interest rates during the first six months of the year, across all maturity bands. The graph below show the movement in PWLB rates for the first six months of the year to 30th September 2013:



Future Borrowing

36. As at the end of March 2013 the CFR was £701m. Excluding PFI 'debt' (£174m) and HRA borrowing (£245m), the General Fund CFR was £282m. Of this £179m was externally borrowed and £103m internally borrowed.

37. The level of internal borrowing compared to the CFR is therefore 19%. This is consistent with other local authorities surveyed by our Advisors.

38. However, internal borrowing is a temporary measure that takes advantage of low interest rates and will ultimately be replaced by more expensive external borrowing as the cash used is required elsewhere. The timing and amount of new external borrowing is therefore dependent on capital spending decisions, future cash flows and forecasts of interest rates.

Debt Rescheduling

39. Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. During the first six months of the year no debt rescheduling was undertaken, and none is anticipated for the remainder of the year.

Icelandic Debt

40. No significant change has arisen since the last update provided within Treasury Management report presented to Cabinet on 27th of June 2013. A further distribution payment has been received from Landsbanki taking the distribution payments received to 54% of the outstanding investment.

    In terms of Glitnir no further update. For information, the administrator paid out 100% of the outstanding monies, 79% being received by the Council, whilst the remainder (in

Icelandic Kroner-ISK) is being held in an escrow account with a high credit quality Scandinavian bank and is accruing interest at a market rate.

Ethical Policy

41. Appendix A sets out the Ethical Investment Policy incorporated within the Treasury Management Practice Statements (TMPS). The City Council currently invest surplus funds with Banks and Building Societies either directly or via the Money Markets in the form of instant access cash deposit accounts, money market funds or on fixed term deposit. The City Council's ethical investment policy is based on the premise that the City Council's choice of where to invest should reflect the ethical values it espouses in public life. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

The Council's Capital Position (Prudential Indicators) – Possible Appendix

42. This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

This table shows the latest estimates for capital expenditure as reported to Cabinet on the 31st October 2013:

Capital Expenditure by Service	2013/14 Latest Estimate £m
Health & Social Care	5
Children Services	43
Neighbourhoods – HRA	32
Neighbourhoods & City Development	80
Corporate Services	29
Total	**189**

43. As reported to Cabinet (31st October 2013) the delivery of the capital programme remains broadly on target.

Financing of the Capital Programme

44. The table below draws together the capital expenditure plan and the expected financing arrangements of this capital expenditure. The borrowing element of the table

increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2013/14 Latest Estimate £m**
Total spend	**189**
Financed by:	
Capital receipts	12
Capital grants	94
Revenue / Reserves	20
HRA – Self Financing	30
Prudential Borrowing – Increase in Capital Financing Requirement	33
Total financing	**189**

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

Capital Financing Requirement (CFR) & Operational Boundary

45. The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose and it also shows the expected debt position over the period. This is termed the Operational Boundary.

	As at 31st March 2013 £m	**2013/14 Original Estimate £m**	**2013/14 Revised Estimate £m**
Prudential Indicator – Capital Financing Requirement			
CFR – non housing	456	521	462
CFR – housing	245	245	245
Total CFR	**701**	**766**	**707**
Prudential Indicator – External Debt / Operational Boundary			
Borrowing	425	435	425
Other long term liabilities*	174	168	168
Total debt 31 March	**599**	**603**	**583**

** On balance sheet PFI schemes and finance leases etc*

The Capital Financing Requirement is expected to be lower than originally estimated due to the re-phasing of the programme in light of the 2012/13 outturn.

Limits to Borrowing Activity

46. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a

capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2013/14 Original Estimate £m	**Current Position £m**	**2013/14 Revised Estimate £m**
Gross borrowing	435	425	415
Plus other long term liabilities*	168	168	168
Gross borrowing	603	593	583
CFR* (year end position)	766	707	707

** Includes on balance sheet PFI schemes and finance leases etc.*

47. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

48. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised limit for external debt	**2013/14 Original Indicator**	**Current Position**	**2013/14 Revised Indicator**
Total Borrowing	**804**	**742**	**742**

49. Maturity Structures of Borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing. These limits are shown below.

	2013/14 Original Indicator	**Current Position (30 September**	**2013/14 Revised Indicator**
Maturity Structure of fixed borrowing			
Under 12 months	0-20%	2%	0-20%
12 months to 2 years	0-20%	0%	0-20%
2 years to 5 years	0-40%	0%	0-40%
5 years to 10 years	0-40%	3%	0-40%
10 years and above	25-100%	95%	25-100%

Consultation and scrutiny input

50. Internal consultation: None

51. External consultation: The Council's Treasury Management advisers

Risk Assessment

52. Borrowing and lending activity is reported to the Mayor.

53. 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.

54. This is mitigated by planning and undertaking borrowing and lending in the light of advisers' 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:

55. 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

56. Not applicable

Legal and Resource Implications

Legal

57. 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 Penny Wilford – Team Leader – Corporate Legal Services 11/11/2013

Financial

(a) Revenue

58. The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan. Any additional operating costs will have to be contained within the revenue budget of the relevant department.
Advice given by Jon Clayton (Corporate Accountant) 16/10/2013

(b) Capital

59. None Sought

Land

60. None.

Personnel

61. None.

Appendices:

Appendix A: Ethical Investments Policy

Access to Information (Background Papers): None

Appendix A

Bristol City Council Ethical Investment Policy- Statement incorporated into Treasury Management Practice Statement No 4

The City Council currently invest surplus funds with Banks and Building Societies either directly or via the Money Markets in the form of instant access cash deposit accounts, money market funds or on fixed term deposit. The Council also holds a sizeable property portfolio.

The City Council's pension fund is held with the Avon Pension Fund administered by Bath & North East Somerset Council. The scheme's funds are invested entirely separately from those of the City Council.

The City Council routinely invests funds with third party organisations through the regular investment of surplus funds. Wherever possible, the City Council wishes to make such investments in ways that are consistent with the mission and values of the City Council as expressed in the Corporate Plan.

The City Council's ethical investment policy (below) is based on the premise that the City Council's choice of where to invest should reflect the ethical values it espouses in public life.

The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

In order to give effect to its commitment to this policy the City Council will:

- Review on a regular basis whether any investment is contrary to the City Council's values

- Consider representation from Members of the City Council's community that the City Council should not invest, or should disinvest, in specific companies

- Monitor the operation and effectiveness of the policy on an annual basis in accordance with Treasury Management Practice Statement Number 4.

Ethical Investment Policy - Detail

1. The Council will not undertake direct investment or borrowing activities with organisations/ Sovereigns whose core activities include:

   - Nuclear fuel
   - Tobacco
   - Pornography or violent material
   - Government's that support or are part of a repressive regime
   - Animal testing for cosmetic purposes / unnecessary exploitation of animals
   - Gambling
   - Third world debt exploitation
   - De-forestation
   - Poor human rights records
   - Poor social/environmental practices
   - Arms trade
   - Bribery/ fraud/ corruption
   - Violation of international intellectual property rights

2. The Council will

   - Support the principles of the Universal Declaration of Human Rights;
   - Seek to support organisations that develop alternatives to animal testing and promote animal welfare;
   - Take an active role in promoting environmental issues such as recycling, sustainable waste management, renewable energy and energy efficiency, sustainable natural products and services (including timber and organic produce), and the pursuit of ecological sustainability;
   - Engage with companies in which it considers investing, and where appropriate use its influence to encourage ethical standards, practices and lines of business acceptable to the Council;

3. The Council's lending activity will be subject to (in order of rank)

- The assessment of meeting the minimum lending criteria as specified in the current Treasury Management Strategy and the minimum credit ratings as outlined in the Strategy;

- Meeting the Security, Liquidity & Yield criteria as set out in the current Treasury Management Strategy; Compliance with the Treasury Management Practice Statements;

- And the ethical investment criteria specified in paragraph 1.

4. The Council will monitor its counterparties to ensure that they comply with the criteria set out in paragraph 1. This will be achieved by ensuring the Council's counterparties publish ethical policies or an annual corporate sustainability report.

5. The Council will monitor the FTSE4Good Index to determine which financial institution has been expelled on the grounds of negative ethical contribution.

6. The council will review any country sanctions enforced by

   - The US Treasury Department
   - United Nations Security Council
   - HM Treasury (financial sanctions)
   - The Foreign Commonwealth Office (international sanctions)
   - The Department for Business, Innovation and Skills (BIS) (trade sanctions)
   - The Financial Services Authority

7. The Council will monitor media sources (newspapers, the internet, economic journals) to ensure the Council's counterparties have not breached the criteria set out in paragraph 1. The Council will also work closely with its Treasury Management Advisors in identifying any breaches in the ethical investment criteria.

8. The reporting of breaches in the ethical investment criteria will take place on a semi-annual basis through the Treasury Management Mid-year Report and the Treasury Management Outturn Report.

9. Where a counterparty is found in breach of the criteria set out in paragraph 1, the counterparty will be removed from the Council's lending list. Any outstanding investments will be reviewed in accordance with the terms and conditions of the contractual arrangement. A cost benefit appraisal will be undertaken to minimise the cost of prematurely redeeming the investment. The Executive Member and Internal Audit will be kept informed.

10. Any lending or borrowing activity undertaken by the Council would be on the basis that the institution is based in the UK, meets the minimum investment criteria and SLY (Security, Liquidity & Yield) criteria as set out in the current

Treasury Management Strategy and Treasury Management Practice Statements, and meets the criteria set above in paragraph 1.

11. As set out in the current treasury management investment strategy, the Council will only lend to UK banks and building societies that meets the minimum investment criteria. The Council cannot guarantee how approved financial institutions use this money.

12. The Council cannot guarantee approved financial institutions that may have branches/offices/subsidiaries in countries that breach the ethical investment criteria set in paragraph 1.

13. The Council cannot guarantee approved financial institutions may have clients that may breach the ethical investment criteria set in paragraph 1.

14. Due to the risk of loss of capital and effectively taxpayer’s monies, the Council will not invest in equity, bond, or property investment funds.