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Your contact: Lorraine Blackburn
Ext: 2172
Date: 8 July 2014

Dear Councillor

AUDIT COMMITTEE - 16 JULY 2014

Please find attached the following report which was marked "to follow" on the agenda for the above meeting:

12. Revision to Treasury Management Arrangements (Pages 3 - 28)

Please bring these papers with you to the meeting, Wednesday 16 July 2014.

Yours faithfully

Lorraine Blackburn
Democratic Services Officer
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MEETING	:	AUDIT COMMITTEE
VENUE	:	COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE	:	WEDNESDAY 16 JULY 2014
TIME	:	7.00 PM

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EAST HERTS COUNCIL

AUDIT COMMITTEE – 16 JULY 2014

COUNCIL – 30 JULY 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

REVISION TO TREASURY MANAGEMENT ARRANGEMENTS

WARDS AFFECTED: None specific

Purpose/Summary of Report

- The Council's Treasury Management Strategy has been updated to include Non Treasury Investments – Pooled Property Funds.
- The report sets out the proposed changes to the Council's credit criteria for Investments as a result of the Government's regulatory changes for Financial Institutions and updates the Treasury Management Strategy accordingly.
- The opportunity has also been taken to review the format of the Treasury Management Strategy.

RECOMMENDATIONS FOR AUDIT COMMITTEE: **That Audit Committee consider and make recommendations to Council on:**	
(A)	**The inclusion of Non Treasury Investments in the Treasury Management Strategy and associated criteria for selection as detailed within the Essential Reference Paper "B" paragraph 9.6.2 and Essential Reference Paper "C" (Annex 2c); and that**
(B)	**the proposed steps to mitigate investment credit risk as detailed at Essential Reference Paper "B" paragraph 9.6.2 and Essential Reference Paper "C"(Annex 2) be noted;**
(C)	**the credit criteria changes for the selection of investment counterparties as detailed at Essential Reference Paper "C" Annex 2a, b and c, as a result of proposed Government regulatory changes be noted; and**
(D)	**the revised format for the Treasury Management Strategy be noted as set out in Essential Reference Paper "B".**

<u>RECOMMENDATIONS FOR COUNCIL</u> **That :**	
(A)	**the inclusion of Non Treasury Investments in the Treasury Management Strategy and associated criteria for selection as detailed at Essential Reference Paper "B", paragraph 9.6.2 and Essential Reference Paper "C" (Annex 2c); be approved; and that**
(B)	**the proposed steps to mitigate investment credit risk as detailed at Essential Reference Paper "B" paragraph 9.6.2 and Essential Reference Paper "C"(Annex 2) be noted;**
(C)	**the credit criteria changes for the selection of investment counterparties as detailed at Essential Reference Paper "C" Annex 2a, b and c, as a result of proposed Government regulatory changes be noted; and**
(D)	**the revised format for the Treasury Management Strategy be noted as set out in Essential Reference Paper "B".**

1 <u>Background</u>

1.1 The Council approved the 2014/15 to 2016/17 Treasury Management Strategy at its meeting on 19 February 2014 (Minute reference 551).

1.2 The Strategy included a reference to consideration being given to a Pooled Property Fund. In order to progress with the proposal and progress a report on the business case for the relevant funds; the treasury strategy needs to include a framework of criteria for managing such an arrangement.

1.3 The opportunity has also been taken to review the format of the Treasury Management Strategy to provide a suitable template for future strategy reports.

1.4 Proposed Government Regulatory changes will also have an impact on the 2014/15 Treasury Management Strategy.

2 <u>Report</u>

2.1 Essential Reference Paper B provides a template for future treasury management strategies and assists compliance with

CIPFA's Treasury Management Code of Practice (2011), which is required under the Local Government Act 2003.

2.2 More important the UK government is proposing to make the following changes to the regulatory framework for financial institutions (as is Europe and the USA). These changes will have a material impact on the credit risk of local authority's treasury management operations.

2.2.1 The Government intends to make changes to Financial Institutions 'implied sovereignty status'. A factor currently influencing institutions credit ratings, there will therefore be a lowering of credit ratings across the board. The most significant change is the introduction of a 'Bail in' arrangement which requires holders of debt - including fixed term deposits to bear the costs associated with an institutions collapse. This introduces a significant new treasury management risk for Local Authorities. Paragraph 9.6.2 of the treasury management strategy update **(Essential Reference Paper "B")**, sets out proposed steps to mitigate the risk. Although these steps will only be agreed once the regulations have actually come into force, proposals are set out in the strategy given this may happen within the timeframe for the strategy. Formal adoption will still be required once we know the adoption timetable.

2.2.2 Government regulations will also be introduced which will prevent Money Market Funds (MMF's) from being credit rated. The Council currently has an investment of £10,000,000 as at 31 May 2014 with Morgan Stanley. In implementation of the regulatory changes the Council will only undertake investments in MMF's following an external credit assessment from its treasury management advisors.

2.2.3 The Council's Counterparty listing (**Essential Reference Paper "C"),** Annex 2a, b, and c) now includes criteria for investment in Non-Treasury investment vehicles such as Pooled Property Funds and direct investment in property to support the Councils' revenue budget and achieve a long term capital gain (**Essential Reference Paper "C"),** 2 Annex 2c)

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

CIPFA Code of Practice on Treasury Management (2011).
CIPFA Prudential Code of Capital Finance in Local Authorities (2011).
Treasury Management Strategy Statement 2014/15 and Minimum Revenue Provision Policy Statement – Audit Committee 22 January 2014/Executive 4 February 2014 and Council 19 February 2014.

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IMPLICATIONS/CONSULTATIONS

Contribution to the Council’s Corporate Priorities/ Objectives:	***People* – Fair and accessible services for those that use them and opportunities for everyone to contribute** ***Place* – Safe and Clean** ***Prosperity* – Improving the economic and social opportunities available to our communities** The treasury management Strategy supports the delivery of the council’s corporate objectives and ensures that through cash management finance is available for the investment and delivery of services.
Consultation:	Not Applicable
Legal:	*The report fulfils the following legislative requirements:* • *Reporting of prudential Indicators in line with the requirements of the CIPFA Code of Practice.* • *Identifies and asks those charged with governance to agree the Minimum Revenue Provision Policy as required by the Local Government and Public Involvement in Health Act 2007.* • *Sets out for consideration the Treasury Management Strategy and the affordability of the Capital Programme* • *Sets out the Investment Strategy in accordance with DCLG guidance on investment.*
Financial:	Within the body of the report.
Human Resource:	Not Applicable.
Risk Management:	The Treasury Management Policy sets out how the Council will mitigate and manage the risks inherent in the Council’s dealings with financial institutions.
Health and wellbeing – issues and impacts:	Not Applicable.

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2014/15 to 2016/17

1 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means the cash raised during the year will meet cash expenditure.
Part of the treasury management operation is to ensure that the council's cashflow is adequately planned, with cash being available when needed. Surplus monies are invested in line with the council's risk management policy and matches expected returns to the policy.

Another key function of treasury management operations is to ensure that the Council's capital expenditure aspirations are funded in full.

1.2 The Council defines its treasury management activities as:

'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions: the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'

1.3 Treasury Management Strategic Principles

The Council's treasury management activities will be undertaken with the following strategic aims and objectives:

- To achieve the minimum interest rate cost on external debt, whilst recognising the risk management implications;
- To protect the capital value of external investments and ensure the liquidity of the investments;
- To provide a return on investments which is maximised in relation to determined risk levels, security and liquidity requirements;
- To mitigate the risks associated with treasury management operations; and
- To seek to follow best practice in the administration of the treasury management function.

Monitoring of these strategic principles will be assessed by the forecasting and review of prudential indicators and associated reporting.

1.4 Statutory and CIPFA Requirements

The Council is required under the Local Government Act 2003 and associated regulations to 'have regard to' the requirements of the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice in setting out its treasury management plans and arrangements for the next three years.

The Code's primary requirements are as follows:

- To set out a Treasury Management Policy Statement as detailed at paragraph 1.3 above;
- To set out a Treasury Strategy for borrowing and prepare an Annual Investment Strategy for a three year budgeting period;
- To create and maintain adequate Treasury Management Practices, setting out how treasury management activities will be managed and controlled.
- To ensure the organisations receives reports on its treasury management policies, practices and activities as a minimum: an annual strategy and plan in advance of the financial year, a mid year review of activity and an annual report.

2 Treasury Management Strategy for 2014/15 to 2016/17

2.1 The strategy covers three main areas:

Capital issues:

- *The Council's capital plans for the next three years and associated monitoring indicators; and*
- *The Minimum Revenue Provision (MRP) Policy.*

Treasury Management Issues:

- *Economic factors influencing the strategy*
- *The Borrowing Strategy and associated risk management processes;*
- *The Investment Strategy and associated risk management processes.*

Other:

- *External Treasury Management Advisors; and*
- *Governance Arrangements.*

2.2 In addition it is a statutory requirement that the strategy includes performance measures which the Council must consider in setting its revenue and capital budgets and in revising its treasury management arrangements.

2.3 These indicators (Prudential Indicators) enable the council to assess the prudence, affordability and sustainability of its capital and treasury management decisions.

2.4 The requirements reported at paragraphs 2.1 to 2.3 ensure that the Strategy is compliant with the necessary statutory regulations, the CIPFA Code of Practice and associated best practice guidance.

3 The Council's Capital Investment Plans – 2014/15 to 2016/17 (Prudential Indicator 1 – evaluation of prudence)

3.1 The Council's capital programme is a key driver of treasury management activity.

3.2 The capital budget approved by Council on 19th February 2014 is detailed at Table 1.

Table 1: Capital Programme and Financing 2014/15 to 2016/17 (Prudential Indicator 1).

Extract from Budget Strategy	***2014/15 Estimate***	***2015/16 Estimate***	***2016/17 Estimate***
	£'000	***£'000***	***£'000***
Capital Expenditure as approved by Council on 19.02.2014	***3,265***	***1,638***	***1,248***
Financed by:	***£'000***	***£'000***	***£'000***
Capital Receipts	*2,320*	*500*	*500*
Capital Grants	*200*	*175*	*175*
Third Party Contributions	*155*	*51*	*-*
Revenue	*25*	*25*	*25*
Net Financing Requirement in Year	***(565)***	***(887)***	***(547)***

3.3 The Council's 'Net Financing Requirement' or underlying need to borrow in any one year; can be met from borrowing, either external or internal borrowing. Since investment interest rates are low compared to the cost of borrowing, the Council will finance the requirement from internal borrowing. The financial impact of the policy is the loss of interest on investments.

4 Council's Borrowing Need: Capital Financing Requirement (CFR) – 2014/15 to 2016/17(Prudential Indicator 2 – evaluation of prudence)

4.1 The CFR is the total capital expenditure which has not been financed from revenue or capital resources that is financed from borrowing (internal and external). It is a measure of the Council's underlying need to borrow. In year unfinanced capital expenditure will increase the CFR. The CFR is reduced annually by the statutory revenue charge for debt repayment – Minimum Revenue Provision (MRP), as detailed at paragraph 6. In addition, other borrowing facilities are added to the CFR, such as finance leases for the council's trade refuse vehicles and property assets.

4.2 Supported by the capital programme detailed at Table 1 the councils' CFR forecasts for the period 2014/15 to 2016/17 are detailed below:

Table2: Capital Financing Requirement – (prudential Indicator 2)

Capital Financing Requirement	***2014/15 Estimate***	***2015/16 Estimate***	***2016/17 Estimate***
	£'000	***£'000***	***£'000***
As at 1 April (negative credit ceiling)	**40,046**	**39,159**	**38,512**

4.3 The Council has a negative credit ceiling as a result of receipts received from the housing stock transfer in 2002. As the early redemption of Council debt of £7.5 million continues to be expensive, the Council is has 'debt free' status by special determination.

4.4 As a result of the three year capital programme being predominately funded from capital income, the CFR remains stable throughout the reporting period.

5 Council’s ability to support the borrowing requirement to finance the capital programme – (Prudential Indicator 3 and 4 – Affordability)

5.1 Two indicators are reported to assist the evaluation of the affordability of council’s capital and borrowing decisions:

- Ratio of financing costs to the net revenue stream, and
- Incremental impact of capital investment decisions on Council Tax levels.

Table 3: Affordability Ratios – (prudential indicators 3 and 4)

Capital Decisions- Affordability Indicators	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Ratio of financing costs to net revenue stream:	0.89%	0.05%	1.20%
Incremental impact of capital financing decisions on council tax:	£0.65	£0.32	£0.24

5.2 The ratios will fluctuate with changes to revenue and capital funding decisions as well as the council’s capital investment aspirations.

6 Council’s Minimum Revenue Provision Policy

6.1 Under statutory requirements the Council is required to make an annual contribution to reduce its Capital Financing Requirement – Minimum Revenue Provision (MRP). A variety of options exist in calculating the MRP charge, the charge does however need to be prudent.

6.2 Following the disposal of the Council’s Housing Stock and the retention of outstanding debt, the Council has a nil MRP.

6.3 The Council has the discretion to make a voluntary revenue contribution against the CFR balance should it wish to do so. Current financial plans do not include additional contributions.

7 Background to Treasury Management Strategy

7.1 Economic forecasting remains difficult due to the complexity of so many global influences impacting on the UK economy. There is however consensus that the economy remains fragile and with a broad range of views on potential performance, expectations have been downgraded. Key areas of economic uncertainty include:

- Current forecasts are that the Bank of England base rate is likely to remain at 0.5% until late 2015. Inflation figures are at the target level with little indication of a significant rise in 2014 which would trigger an early increase in the base rate.
- The consumer debt funded element to growth remains prominent in the UK economy, causing concerns for business expansion.
- UK, European and USA governments are proposing regulations for financial institutions which will avoid state bail outs for failing banks. This will be significant for Local Authorities future investment in financial institutions. Thus the diversification of counterparties and between investment products will become important.
- In the Eurozone, sovereign debt difficulties have not disappeared and concerns remain for any countries which do not dynamically address fundamental issues of low growth, international uncompetiveness and the need for reforms of the economy. This could lead to the loss of investor confidence in the country's financial viability, extrapolating sovereign debt concerns. Counterparty risks will remain elevated in the medium to short term.
  For the Council's investments this means the continued use of higher quality counterparties for short time periods.
- Investment returns are likely to remain low during 2014/15 and beyond.
- Borrowing rates have risen significantly during 2013 and are on a rising trend.

7.2 Annex 1 provides a forecast for the bank base rate as provided by the Council's treasury management advisors – Capita Asset Services.

8 Borrowing Strategy 2014/15 to 2016/17

8.1 Background

Local Authorities undertake borrowing to:

- Finance capital expenditure not met from grants, capital receipts, development contributions, etc.,
- To replace maturing debt, and
- To finance cashflow in the short term.

8.2 Interest rate risk and a ‘bunched’ debt maturity portfolio are the key risks for the Council’s borrowing strategy.

8.3 The Council can raise borrowing from a variety of sources. However, the Government’s PWLB facility remains a low cost and flexible option for long term borrowing.

8.4 The Council’s debt portfolio comprises:

- £1.5 million of PWLB debt due to mature on 1st February 2055 at a fixed rate of 8.875%,
- £6 million loan with LGS Investment due to mature on 22 May 2020 at a fixed rate of 8.785%; and
- A finance lease with a financial value of £1.288 million for 10 Refuse Vehicles.

The Council’s debt portfolio is not expected to change over the reporting period of this strategy.

8.5 Borrowing Prudential Indicators (Prudential Indicators 5, 6, 7, 8 and 9)

There are five debt related indicators:

- Upper limits for variable interest rate exposure,
- Upper limits for Fixed rate exposure, and
- Maturity structure of existing debt.
- Authorised Limit – which represents the total external debt and is the legal limit for external debt and long term credit arrangements.
- Operational Boundary – sets the annual external debt threshold. The indicator reflects the level of debt sustainable in the short term but not the long term.

Table 4: Debt related Prudential Indicators – (prudential indicators: 5,6,7,8 and 9)

Interest Rates Exposure	***2014/15***	***2015/16***	***2016/17***
	%	***%***	***%***
Limits for Fixed interest rate exposure on net debt	**100**	**100**	**100**
Limits for Variable interest rate exposure on net debt	**50**	**50**	**50**
Authorised Limit	**£17.0m**	**£17.6m**	**£17.0m**
Operational Boundary	**£12.0m**	**£11.6m**	**£11.0m**
		%	%
Limits for Maturity Structure of Debt portfolio 2014/15:		***Lower***	***Upper***
Under 12 months		*0%*	*20%*
12 months to 2 Years		0%	25%
2 Years to 5 years		0%	40%
5 Years to 10 Years		0%	80%
10 years and above		0%	100%

Note: the maturity structure of debt has been realigned since the treasury management strategy was approved in February 2014 to reflect the actual debt maturity profile for the council.

8.6 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of need purely in order to make a profit.

8.7 Debt Rescheduling

Due to high rates of interest on the outstanding £7.5 million of external debt and the expected low level of discount rates for maturities, any potential restructuring or premature repayment of debt would be very expensive; as early repayment would attract premiums in excess of £1 million.

The situation will be kept under review in consultation with the Council's TM advisors and any changes or proposals will be reported to Council for consideration and approval.

8.8 Use of Financial Derivatives to manage interest rate risks

Under the General Power of Competence, the Localism Act 2011 granted local authorities, in theory, the power to use financial derivatives to manage interest rate risk. However, given that the power is not explicit and untested in the Courts; the Council does not intend to use these arrangements.
Should the situation change, the Council would be required to change the Strategy and develop a framework for the use of such instruments.

9 Investment Strategy 2014/15 to 2016/17

9.1 Primary Investment principle

All external investments will be made in accordance with the Council's adopted investment policy, prevailing legislation and associated regulations.

9.2 In Line with CIPFA's Code of practice and DCLG guidance, the Council's primary investment principle is to invest surplus funds giving priority to the security of the capital sum and liquidity; with the return on investment being commensurate to the security and liquidity required.

9.3 The council's investment portfolio as at 31 March 2014 consisted:

Investment Portfolio as at 31 March 2014:

Duration	**£'000**
Long Term	10,000
Short Term:	
Deposits	41,571
Cash and Cash Equivalents	
Deposits	7,860
Money Market Fund	9,500
TOTAL	**68,931**

9.4 Available Investment Vehicles

Under Statutory Regulations Local Authorities have a variety of treasury investment vehicles available to them to investment surplus cash. The investment vehicles are split into 'Specified' investments and 'Non Specified' investments, the definition of each being:

- ‘Specified’ Investments are in Sterling, with a duration of no more than a year and meet the minimum ‘high’ quality criteria where applicable(Annex 2a)
- ‘Non Specified’ Investments are any other investments not meeting the specified criteria (Annex 2b)

9.5 Council’s Creditworthiness Policy - Background

The Council applies the credit rating model provided by Capita Asset Services to select investment counterparties. The ratings are based on information from three key rating agencies (Fitch, Moods and Standard & Poors). The model also builds in any ratings watch information and credit outlooks, Credit Default Swap spread are used as an early warning of likely changes to credit ratings and sovereign ratings.

9.5.1 The model produces a colour coded banding system of creditworthiness and maximum investment duration for the council to consider.

9.5.2 The Council then sets maximum investment limits for group counterparties.

9.6 Council’s Counterparty Policy – Proposed Changes

9.6.1 Regulatory change for Financial Institutions – implied sovereignty support.

Regulations are to be introduced which will remove the implied sovereignty support to financial institutions. This is a factor which currently influences credit ratings. The regulations will provide a ‘Bail in’ provision for funding institutions; which requires holders of debt (including fixed term deposits) to bear the costs associated with an institutions collapse. Since most local authorities investments tend to be in fixed term deposits this will introduce a significant new credit risk for Local Authorities which will need mitigating.

9.6.2 The following steps are proposed to mitigate the new risk;

- The council further reduces sums to be invested externally by financing unsupported capital expenditure from internal borrowing; thus reducing surplus cash balances to be invested in the short to medium term.
- Extend the spread of the council’s investment counterparties and spread credit risk by;

- Adopting a lower cash limit for individual institutions and Group limits;
- Applying shorter investment durations for institutions with lower credit ratings;
- Consider investment with other public bodies; and
- Diversify the Council's investment portfolio to include non-treasury investments, such as Pooled Property Funds and direct investment in property.

Annex 2a, Annex 2b and Annex 2c present proposals which have been discussed with Capita.

9.7 Regulatory change for Financial Institutions – Money Market Funds (MMF's) Credit ratings.

9.7.1 Changes are proposed which will prevent Money Market Funds from obtaining a credit rating. On the issue of the changes the council will take advice from the Councils' treasury management advisors and review current arrangements.

9.8 Investments - Assessing performance and monitoring risk

9.8.1 The Council will set an upper limit on sums invested in 'Non Specified' treasury investment vehicles for periods of longer than 364 days. An upper limit of 20% of the total annual treasury investment portfolio is proposed.

9.8.2 The Council has assumed an investment return of 1.1% (2014-15 and 2015-16) and 1.4 %(2016-17) in the Medium Term Financial Plan.

9.8.3 Any material variations for the council's revenue budget as a result of lower investment returns will be met from the Interest Equalisation Reserve as agreed by Council. The balance on the reserve was £2.257 million as at 31 March 2014.

10 Policy on use of External Advisors

10.1 The Council uses Capita Asset Services as its external treasury management advisors.

10.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that reliance is not placed upon external service providers.

There is a benefit in employing specialist treasury management providers to access up to date skills and knowledge.

11 Corporate Governance

11.1 Reporting requirements

As a minimum those charged with governance will receive and consider the following reports:

- The treasury management strategy for the forthcoming financial year and the following two financial years which is compliant with the CIPFA Code of Practice and best practice guidance. The report is to be considered in association with the council's revenue and capital strategies.
- A mid-year treasury management report on progress against the target and indicators set in the strategy.
- An outturn report, to be received no later than six months after the end of the financial year.
- The monthly healthcheck monitoring report which is reported to CMT, Executive and Full Council will include material changes to investment returns in year and the impact of any changes to the council's external funding costs.
- The Investment Board meets on a regular basis to consider current investment arrangements.

11.2 Role of the Section 151 Officer

The Section 151 Officer is responsible for all monies in the hands of the Council. This includes the Treasury Management function. This responsibility is incorporated into the Council's Financial Regulations.

11.3 The training needs for relevant officers involved in treasury operations will be regularly reviewed.

ANNEX 1

Relevant Quarter	Bank Base Rate Forecast
	%
Quarter 2 2014	0.5%
Quarter 3 2014	0.5%
Quarter 4 2014	0.5%
Quarter 1 2015	0.75%
Quarter 2 2015	0.75%
Quarter 3 2015	1.0%
Quarter 4 2015	1.0%
Quarter 1 2016	1.25%

Provided By Capita Asset Service as at 1 July 2014.

ANNEX 2a

Treasury Management Counterparties

‘Specified ‘ Investments:				
Treasury ‘Vehicle’	***Minimum ‘High’ Credit Criteria**	**Use**	**Investment Limit**	**Duration**
Debt Management Agency Deposit Facility	Not Applicable	In-house		6 months
Term deposits - other LA’s (including police & fire authority’s)	Not Applicable	In-house		364 days
Term deposits - banks and building societies**	*Short-term F1 Long-term A,	In-house and Fund Managers		In house based on Capita Asset services colour durations
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	*Short-term F1 Long-term A,	In-house and Fund Managers		In house based on Capita Asset services colour durations
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	*Short-term F1, Long-term A, ,	In-house and Fund Managers		In house based on Capita Asset services colour durations
1. Callable deposits	*Short-term F1, Long-term A,	In-house and Fund Managers		
2. Range trade	*Short-term F1, Long-term	In-house and Fund Managers		
3. Snowballs	*Short-term F1, Long-term	In-house and Fund Managers		
UK Government Gilts	AAA-AA	In-house and Fund Managers		
Bonds issued by multilateral development banks	AAA	Fund Managers		
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):				

ANNEX 2a

Treasury Management Counterparties

'Specified ' Investments:				
Treasury 'Vehicle'	***Minimum 'High' Credit Criteria**	**Use**	**Investment Limit**	**Duration**
1. Money Market Funds	AAA	Fund managers and In-house		
2. Enhanced cash funds	AAA,	Fund managers and in-house		
3. Short term funds	*Short-term F1, Long-term A,	Fund Managers		
4. Bond Funds	Not Applicable	Fund Managers		
5. Gilt Funds	*AAA-AA	Fund Managers		
Bonds issued by a financial institution which is guaranteed by the UK government	*AAA	In-house on a 'buy-and-hold basis. Also for use by fund managers		
Sovereign bond issues (i.e. other than the UK govt)	*AAA	Fund Managers		
Treasury Bills	AA	Fund Managers. In-house on a buy and hold basis.		

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

Note: Counterparty limits for individual banking groups will not exceed £10 million, except for Lloyds and NatWest Groups which have been individually approved at £20 million respectively.

Annex 2b

Treasury Management Counterparties

Non Specified Investments:	*** Minimum Credit Criteria**	**Use**	****Max% of total investments**	**Maximum maturity period**
Treasury vehicle				
Term deposits - other LAs (with maturities in excess of 1 year)		In-house	60%	5 years
Term deposits - banks and building societies (with maturities in excess of 1 year)	*Short-term F1, Long-term A.	In-house	80%	5 years
Commercial paper issuance by UK banks covered by UK Government guarantee	*Short-term F1, Long-term A.	Fund Managers		5 years
Fixed term deposits with variable rate and variable maturities				
1. Callable deposits	*Short-term F1, Long-term AA.	Fund managers	80%	5 years
2. Range trade	*Short-term F1, Long-term AA.	Fund managers	10%	5 years

Annex 2b

Treasury Management Counterparties

Non Specified Investments:	*** Minimum Credit Criteria**	**Use**	****Max% of total investments**	**Maximum maturity period**
3. Snowballs	*Short-term F1, Long-term AA.	Fund managers	10%	2 years
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	*Short-term F1, Long-term AA.	Fund Managers	50%	5 years
UK Government Gilts with maturities in excess of 1 year	AAA-AA	Fund Managers	100%	10 years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	Fund Managers	40%	10 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA-AA	Fund Managers	40%	10 years
Sovereign bond issues (i.e. other than the UK govt) with maturities in excess of 1 year	AAA	Fund Managers	50%	10 years

Annex 2b

Treasury Management Counterparties

Non Specified Investments:	*** Minimum Credit Criteria**	**Use**	****Max% of total investments**	**Maximum maturity period**
Corporate Bonds	*AAA	Fund Managers.	10%	5 years
Floating Rate Notes	*AAA	Fund Managers.	10%	5 years

** Note: When setting these limits it includes both in-house and externally managed funds.

Annex 2c

Treasury Management Counterparties

Non Treasury	*** Minimum Credit Criteria**	**Use**	****Max% of total investments**	**Maximum maturity period**
Direct investment in Property.	Credit rating not applicable. Financial viability, operational and risk minimisation to be evaluated in line with Capital programme bidding process.	In House or Procurement	£20 million.	Medium to long term investment.
Property Funds	Credit ratings not applicable. Business case to be reported to Executive and Council for consideration and approval.	Fund Manager	£20 million. Maximum of two Funds at any one time for viability.	Medium to Long Term