Cabinet	

Meeting Date	**4 February 2015**
Report Title	**Treasury Management Strategy Statement and Investment Strategy 2015/16**
Cabinet Member	**Cllr. Duncan Dewar-Whalley Cabinet Member for Finance**
SMT Lead	**Nick Vickers, Head of Finance**
Head of Service	**Nick Vickers, Head of Finance**
Lead Officer	**Olga Cole, Management Accountant**
Key Decision	**Yes**
Classification	**Open**
Forward Plan	**Yes**

Recommendations	1. To approve the Treasury Management Strategy Statement and Investment Strategy for 2015/16. 2. To agree the proposed inclusion of Treasury Bills, highly rated overseas banks for increased deposits, use of the CCLA Property Fund, pooled corporate and absolute return funds to levels specified.

1. Purpose of Report and Executive Summary

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement and Prudential Indicators on an annual basis.

1.2 The Chartered Institute of Public Finance and Accountancy has defined Treasury Management as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3 The changes to the regulatory regime for UK and European banks in January and July 2015 makes bank deposits, which have been the bedrock of our investment strategy, far riskier than previously and means that bank positions will need to be reduced and diversifying into other asset classes considered.

1.4 This report sets out and seeks approval of the proposed Treasury Management Strategy and Investment Strategy for the Council in 2015/16. It will be proposed to Council at the meeting on 18 February 2015.

2. Background

Borrowing Strategy

2.1 The Medium Term Financial Plan assumes that the Council remains free from external borrowing other than any borrowing necessary for short term cash flow reasons. The Council on 30 July 2014 agreed that borrowing would be allowed for the construction of a multi storey car park in Sittingbourne as part of the regeneration of the town centre.

Interest Rate Forecast

2.2 The Council's treasury management advisor Arlingclose forecasts the first rise in official interest rates in Quarter 3 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. This is a position which Arlingclose have held for a considerable time and increasingly the consensus view amongst forecasters has moved towards interest rates being lower for a longer time. A more detailed economic and interest rate forecast provided by the Arlingclose is attached at Appendix I.

Investment Strategy

2.3 The Council holds invested funds, averaging in the year to date £20m with a maximum of £35m, representing income received in advance plus balances and reserves held.

2.4 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and have regard to the security and liquidity of its investments before seeking higher return.

2.5 The Council has had a risk averse investment strategy limiting deposits to major highly rated UK financial institutions and Money Market Funds.

2.6 UK and European Governments have been working on options to avoid a repeat of the "bail out" of banks which we have seen since 2008. This has been replaced with the concept of "bail in" where classes of owners or depositors in the bank take the first tranches of any losses. The impact of this is reinforced by the likely downgrading of the credit ratings of banks as the impact of Government support is removed from the ratings in 2015.

2.7 The implementation of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

2.8 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council.

Criteria for Counterparty Selection

2.9 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This will mean less of the Council's total deposits being held with banks on an unsecured basis.

2.10 The Council could make use of the following asset classes:

(1) Government: Loans, bonds and bills issued or guaranteed by national governments and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

(2) Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks with a minimum long term credit rating of A-. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. The only exception to this would be overnight deposits at the Council's current account provider if this was downgraded to BBB or BBB- at some future point.

(3) Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

(4) Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

(5) Money Market Funds: These are pooled investment funds managed by major financial institutions. Money Market Funds offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts. We already make extensive use of Money Market Funds.

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

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

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

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

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

Specified and Non-Specified Investments

2.15 The CLG Guidance defines specified investments as those:

Denominated in pound sterling

Due to be repaid within 12 months of arrangement

Not defined as capital expenditure by legislation, and

Invested with one of:

- The UK Government
- A body or investment scheme of “high credit quality”

2.16 The Council defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

2.17 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Investment Strategy

2.18 The current counterparties are:

Debt Management Office (DMO)

Supranational Banks

Barclays Bank Plc

HSBC Bank Plc

Lloyds Banking Group

RBS Group

Santander UK Plc

Nationwide Building Society

Standard Chartered Bank Plc

Svenska Handelsbanken

Leeds Building Society

Close Brothers

Small building societies- Furness, Leek, Newbury, Hinckley & Rugby, Darlington, Market Harborough, Melton Mowbray, Tipton& Coseley, Scottish, Loughborough, Mansfield, Harpenden and Vernon.

Money Market Funds

2.19 In consultation with Arlingclose the following additions are proposed:

Treasury Bills - these are fixed period Treasury deposits which are bought in an auction and typically pay higher rates than Debt Management Office deposits with the same level of security.

Highly rated overseas banks (unsecured deposits)- to be determined with Arlingclose and have a minimum credit rating of A+ compared with A- for UK banks, for example JP Morgan Chase Bank, various Australian and Canadian banks, Deutsche Bank, ING Bank.

Investment in the Church Charities and Local Authorities LAMIT Property Fund. This fund now has investments of over £200m and local authorities can invest in it without the investment counting as capital expenditure. Local councils including KCC, Tunbridge Wells and Ashford have invested.

Pooled corporate credit or loan funds- high quality, well diversified corporate credit funds.

Absolute return funds- these are funds which invest in a range of asset classes, equities, fixed income and alternatives, against a benchmark return typically of cash plus 5%.

2.20 Arlingclose are now recommending moving from a 10% of total deposits limit for unsecured deposits to 5%. The Council will move to a 5% limit on unsecured bank deposits at its discretion depending upon the assessment of individual counter parties by the Head of Finance. At the same time we will need to be extremely vigilant and either cease to use a counter party or move to overnight deposits if there are any signs of concern. The Money Market Fund individual limits will remain at £1.5m.

2.21 The recommended counterparty limits are:

Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits.	£3m reducing to £2m per bank/building society
Svenska Handelsbanken	£3m
Leeds Building Society unsecured deposits	£1m
Close Brothers unsecured deposits	£1m
Small UK building societies unsecured deposits meeting Arlingclose preferred criteria	£250k each or £1m in aggregate
Major Overseas banks unsecured deposits (to be determined with Arlingclose)	£1m limit per bank
Short Term Money Market Funds	£1.5m each
CCLA LAMIT Property Fund	£1.5m in aggregate
Supranational bonds	£6m in aggregate
Corporate bond funds	£3m in aggregate
Absolute return funds	£3m in aggregate

Duration of Investments

2.22 The maximum duration for term deposits will be 12 months. The Head of Finance in consultation with the Cabinet Member for Finance may consider longer duration.

2.23 For bonds the maximum duration will be 5 years including, where applicable, the 5-year benchmark bond which may at the point of issue have a maturity a few months in excess of 5 years.

Treasury Advisors

2.24 Arlingclose is the Council's treasury adviser. Officers meet with Arlingclose on a quarterly basis.

Treasury Training

2.25 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice requires the Head of Finance to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

3. Consultation Undertaken or Proposed

3.1 Consultation has been taken with Arlingclose.

4. Implications

Issue	Implications
Corporate Plan	Good management of the Council's cash balances assists the overall financial position of the Council and this helps meet its objectives.
Financial, Resource and Property	The low risk, low return investment strategy is reflected in investment income assumptions in the 2015/16 budget.
Legal and Statutory	DCLG and CIPFA requirements complied with.
Crime and Disorder	Not applicable
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The principle of security of funds over-rides investment performance considerations.
Equality and Diversity	Not applicable
Sustainability	Not applicable

5. Appendices

5.1 The following appendices are published with this report and form part of the report

- Appendix I: Arlingclose Interest Rate Forecast
- Appendix II: Prudential and Treasury Management Indicators

6. Background Papers

6.1 None

Appendix I

ARLINGCLOSE INTEREST RATE FORECAST

Underlying assumptions:

The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.

We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.

Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.

In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.

The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.

While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.

The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

Appendix I

ARLINGCLOSE INTEREST RATE FORECAST

Forecast:

Arlingclose continues to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.

We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.

The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.05	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.55**	**0.60**	**0.65**	**0.85**	**1.00**	**1.15**	**1.30**	**1.45**	**1.60**	**1.75**	**1.85**	**2.05**	**2.15**
Downside risk	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-1.00
1-yr LIBID rate													
Upside risk	0.10	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.95**	**1.00**	**1.05**	**1.20**	**1.35**	**1.50**	**1.65**	**1.80**	**1.95**	**2.10**	**2.20**	**2.40**	**2.50**
Downside risk	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80
5-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**1.70**	**1.75**	**1.90**	**2.00**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.70**	**2.90**	**2.95**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70
10-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**2.40**	**2.45**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.05**	**3.10**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
20-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**2.90**	**2.95**	**3.05**	**3.10**	**3.15**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60
50-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	**3.00**	**3.05**	**3.10**	**3.15**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**	**3.60**
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

Appendix II

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Should the Council borrow in advance of need, this will be limited to a three year maximum and will not exceed this indicator.

3. Estimates of Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total	**2,454**	**1,103**	**15**	**15**

Capital expenditure will be financed or funded as follows:

Capital Financing	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Capital receipts	444	30	0	0
Government Grants	1,593	1,058	0	0
Revenue contributions	417	15	15	15
Total Financing	**2,454**	**1,103**	**15**	**15**
Total Funding	**0**	**0**	**0**	**0**
Total Financing and Funding	**2,454**	**1,103**	**15**	**15**

4. Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

Ratio of Financing Costs to Net Revenue Stream	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total	1.75	1.70	1.67	1.71

5. Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total CFR	5,776	5,145	4,833	4,524

6. Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Decrease in Band D Council Tax	-0.01	0.00	0.00

7. Authorised Limit and Operational Boundary for External Debt:

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

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PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2014/15 Revised £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
Borrowing	5,000	5,000	5,000	5,000
Other Long-term Liabilities	2,000	2,000	2,000	2,000
Total	**7,000**	**7,000**	**7,000**	**7,000**

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	**2014/15 Revised £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
Borrowing	2,000	2,000	2,000	2,000
Other Long-term Liabilities	992	774	623	376
Total	**2,992**	**2,774**	**2,623**	**2,376**

8. Adoption of the CIPFA Treasury Management Code:

This indicator demonstrates that the Council has adopted the principles of best practice.

The Council approved the adoption of the revised CIPFA Treasury Management Code at its Council meeting on 22 February 2012.

The Council has incorporated the changes from the revised CIPFA Treasury Management in the Public Services: Code of Practice 2011 into its treasury policies, procedures and practices.

9. Credit Risk:

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

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PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

Treasury Management Indicators

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments)

	Existing level at 31/12/2014 %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Interest on fixed rate borrowing	0	100	100	100
Interest on fixed rate investments	-38	-100	-100	-100
Upper Limit for Fixed Interest Rate Exposure	**-38**	**0**	**0**	**0**
Interest on variable rate borrowing	0	100	100	100
Interest on variable rate investments	-62	-100	-100	-100
Upper Limit for Variable Interest Rate Exposure	**-62**	**0**	**0**	**0**

As the Council has no borrowing, these calculations have resulted in a negative figure.

11. Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	**Lower Limit for 2015/16 %**	**Upper Limit for 2015/16 %**
under 12 months	0	100
12 months and within 24 months	0	0
24 months and within 5 years	0	0
5 years and within 10 years	0	0
10 years and above	0	0

Appendix II

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

12. Upper Limit for total principal sums invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total	7,000	7,000	7,000