Cabinet

Dorset County Council

Date of Meeting	31 January 2018
Cabinet Member Tony Ferrari - Cabinet Member for Community and Resources Lead Officer Richard Bates – Chief Financial Officer	
Subject of Report	**Treasury Management Strategy Statement and Prudential Indicators for 2018-19**
Executive Summary	The CIPFA Prudential Code highlights particular aspects of the planning of capital expenditure and the funding of that expenditure. The Code requires the publication and monitoring of Prudential Indicators which inform Members of the scope and impact of the capital spend. In addition, there are separate requirements under the CIPFA Treasury Management Code to publish a Treasury Management Strategy. This report sets out the issues for consideration and seeks agreement to the required indicators and strategies.
Impact Assessment:	Equalities Impact Assessment: There are no equality issues that arise from this report.
	Use of Evidence: Historical trends and experiences along with professional advice and recommended best practices have been followed in the development of this strategy and the formulation of the Prudential Indicators.
	Budget: All treasury management budget implications are reported as part of the Corporate Budget.

<table>
<tr><td rowspan="2"></td><td>Risk Assessment:

Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as:
Current Risk: HIGH
Residual Risk MEDIUM

Treasury management is an inherently risky area of activity. This report describes those risks and the controls in place to mitigate those risks.</td></tr>
<tr><td>Other Implications: None.</td></tr>
<tr><td>Recommendation</td><td>The Cabinet recommends to the County Council approval of:
1. The Prudential Indicators and Limits for 2018/19 to 2020/21.
2. The Minimum Revenue Provision (MRP) Statement.
3. The Treasury Management Strategy.
4. The Investment Strategy.
5. Delegation to the Chief Financial Officer to determine the most appropriate means of funding the Capital Programme.</td></tr>
<tr><td>Reason for Recommendation</td><td>The Prudential Code gives a framework under which the Council's capital finance decisions are carried out. It requires the Council to demonstrate that its capital expenditure plans are affordable, external borrowing is within prudent and sustainable levels and treasury management decisions are taken in accordance with professional good practice. Adherence to the Prudential Code is mandatory as set out in the Local Government Act 2003.

This report recommends the indicators to be applied by the Council for the financial years 2018/19 to 2020/21. The successful implementation of the code will assist in our objective of developing 'public services fit for the future'.</td></tr>
<tr><td>Appendices</td><td>1. Treasury Management Investment Policy and Annexes
2. Schedule of Delegations</td></tr>
<tr><td>Background Papers</td><td>CIPFA Treasury Management Code of Practice
Local Government Finance Settlement 2018/19
CIPFA Prudential Code for Capital Finance in Local Authorities</td></tr>
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</table>

1. Background

1.1. The Treasury Management function of the Council manages the cashflow, banking, money market transactions and long term debts, and in doing so manages the risks associated with these activities with a view to optimising interest earned and minimising the costs of borrowing. The cash turnover of the Council from day to day activities is approximately £1,500m a year; with roughly £750m a year cash income and £750m cash expenditure, reflecting the fact that the Council is required to set a balanced budget. These large sums of monetary activity mean that Treasury operations within Local Government are highly regulated.

1.2. The Local Government Act 2003 introduced greater freedoms for Councils in relation to capital investment and the powers to borrow to finance capital works. To ensure that Councils use these powers responsibly, the Act requires the Council to adopt the CIPFA Prudential Code and adhere to annually produced Prudential Indicators. The underlying objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with the best professional practice. There are prudential indicators which summarise the expected capital activity and apply limits upon that activity and as a result the levels and types of borrowing. They reflect the outcome of the Council's underlying capital appraisal systems.

1.3. Within this prudential framework there is an impact on the Council's treasury management activity, as it directly impacts on its borrowing and investment activities. As a consequence the treasury management strategy is included as part of this report to complement these indicators.

1.4. This report revises the previously approved prudential indicators for 2018/19 and 2019/20, adds an extra year for 2020/21, and sets out the expected treasury operations for the next three year period. It fulfils four key legislative requirements:

- The reporting of the prudential indicators setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities);
- The setting of the Council's Minimum Revenue Provision (MRP) Policy, which states how the Council will repay the borrowing made to fund capital purchases through the revenue account each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007, and in accordance with CLG Guidance);
- The reporting of the Treasury Management Strategy Statement which sets out how the Council's treasury function will support the capital programme decisions, day to day treasury management and the restrictions on activity set through the treasury prudential indicators. The key indicators are required as part of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
- The reporting of the investment strategy which sets out the Council's criteria for choosing investment counterparties and how it minimises the risks faced. This strategy is in accordance with the CLG Investment Guidance.

1.5. The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

2. Treasury Management Advisers

2.1. The Council uses Link Asset Services (formerly Capita Asset Services) as its treasury management advisers. Link provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings-market information service comprising the three main credit rating agencies.

2.2. Whilst the advisers provide valuable support to the internal treasury function, the final decision on treasury matters remains with the Council. This service is subject to regular review.

3. Economic Outlook and Prospects for Interest Rates

3.1. Part of Link's service is assist the Council to formulate a view on interest rates. The following table shows Link's most recent forecast for UK Bank Rate, short term investment returns (LBID) and borrowing rates from the Public Works Loans Board (PWLB).

	Now	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 Yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 Yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 Yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 Yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

3.2 At its meeting on 2 November 2017, the Monetary Policy Committee (MPC) agreed a 0.25% increase in Bank Rate to 0.50%, thus removing the reduction in August 2016 after the EU referendum. The MPC also indicated that they anticipated two further increases of 0.25% to end at 1.00% by 2020. The Link Asset Services forecast above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

3.3 The overall longer run trend is for gilt yields and therefore PWLB rates to rise, albeit gently. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Federal Reserve has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK, with the degree of that upward pressure dampened by the prospects for economic growth and rising inflation, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

3.4 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Link's view is that the overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

4. Capital Programme Prudential Indicators

4.1. The Prudential Indicators (PIs) are driven by the Council's Capital Programme plans. The Capital Programme influences all borrowing decisions made by the Council and the subsequent Treasury Management activity associated with this. The PIs are also influenced by wider Council decisions and the effect of the revenue and capital proposals included in the reports elsewhere on this agenda. All assumptions in this report are therefore consistent with the Medium Term Financial Plan.

4.2. The corporate criteria for capital investment, as laid out in the Asset Management Plan, were used to establish a list of priority projects for possible inclusion in the forward plan. The capital expenditure figures in 2016/17 and the estimates of capital expenditure to be incurred in the current and future years, that form the basis of the Prudential Indicators, are based on the Capital Programme 2018/19 to 2019/20 report.

Prudential Indicator 1 – Capital Expenditure

4.3. The first requirement of the Prudential Code is that the Authority must make reasonable estimates of the total capital expenditure it intends to incur over the following three financial years. Table 1 illustrates the actual and anticipated level of capital expenditure for the five years 2016/17 to 2020/21 and is the starting point for setting the rest of the PIs. Members will already be familiar with the figures from the quarterly Asset Management Monitoring reports to the Cabinet.

Table 1 – Capital Programme Expenditure 2016/17 to 2020/21

	2016/17 £000 Actual	2017/18 £000 Estimate	2018/19 £000 Estimate	2019/20 £000 Estimate	2020/21 £000 Estimate
Environment	31,701	31,741	22,405	18,483	12,965
Childrens	21,618	20,102	23,990	1,593	3,988
Adult & Community	571	690	850	4,622	2,838
Cabinet / Whole Authority	9,658	8,088	14,962	1,893	1,893
Dorset Waste Partnership	3,289	2,829	5,114	6,991	5,798
Vehicles	2,185	1,539	1,053	510	1,000
Structural Maintenance	0	5,517	5,967	5,967	5,967
Contingency & Flexibility	0	2,555	0	0	0
Anticipated Slippage	0	-10,000	-10,000	5,000	5,000
Total Capital Expenditure	**69,022**	**63,061**	**64,341**	**45,059**	**39,449**

4.4. The figures appear to show a decline in capital expenditure from 2019/20 onwards. This is because they only include expenditure that can be financed from sources that are reasonably certain at this point in time. Figures for 2019/20 and 2020/21 also include slippage from previous years and funding from already earmarked capital receipts. Assumptions have been made about the likely level of government funding in future years and may therefore require revision.

4.5. The capital expenditure figures assume a certain level of funding from borrowing for each year. Capital expenditure which cannot be immediately financed, or paid for, through revenue or capital resources (such as capital receipts), will require funding through either new borrowing or the utilisation of available cash resources pending borrowing. Proposals on the level of borrowing for capital purposes are shown at paragraph 7.2 of this report and are set out for approval in the Revenue and Capital reports on this agenda.

Prudential Indicator 2 – The Capital Financing Requirement

4.6. The capital financing requirement (CFR) measures the Authority's underlying need to borrow for capital purposes. This figure includes all long term borrowing as well as financing that is implicit in Private Finance Initiative schemes and finance leases.

4.7. As part of a proactive and efficient Treasury Management Strategy, the Council does not differentiate between cash held for revenue purposes and cash held to fund the capital programme. At any point in time the Council has a number of cash flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices.

4.8. External borrowing arises from long term funding of capital spend and short term cash management if required, and as such can fluctuate over a number of months and years. In contrast, the capital financing requirement reflects the Council's underlying need to borrow for a capital purpose. The CIPFA Prudential Code includes the following as a key indicator of prudence:

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

4.9. This basically means that the Council can only borrow for capital purposes and only for the capital expenditure it has set out and approved over the course of its three year capital programme. Estimates of the end of year capital financing requirement for the Council for the current and future years and the actual capital financing requirement at 31 March 2017 are:

Table 2 Capital Financing Requirement (CFR) 2016/17 to 2020/2021

	2016/17 £000 Actual	**2017/18 £000 Estimate**	**2018/19 £000 Estimate**	**2019/20 £000 Estimate**	**2020/21 £000 Estimate**
Borrowing Requirement	298,769	307,654	318,703	317,130	320,586
Long Term Liabilities	37,574	34,100	32,600	31,100	29,600
CFR	**336,343**	**341,754**	**351,303**	**348,230**	**350,186**

5. Minimum Revenue Provision Policy Statement

5.1. The Council is required to make a provision (charge to the revenue account) each year towards the repayment of its underlying borrowing requirements, regardless of whether any actual debt is repaid. The Department for Communities and Local Government, (CLG) requires that before the start of each financial year the Council should prepare a statement of its policy on making such provisions known as the Minimum Revenue Provision (MRP) for that year.

5.2. The Council is required to calculate for the current financial year an amount for the MRP which it considers to be prudent. The broad aim of prudent provision is to ensure that the underlying borrowing need, as expressed by the Capital Financing Requirement (CFR), is repaid over a period reasonably commensurate with the life of the capital assets that the borrowing has financed. The statement should indicate which of the options for MRP are to be followed.

5.3. The Cabinet is recommended to approve the following MRP Statement, which is unchanged from 2017/18:

- For capital expenditure incurred before 1 April 2008 or which is Supported Capital Expenditure, the MRP policy will be based on the CFR.
- From 1 April 2008 for all unsupported borrowing, the MRP policy will be based on the Asset Life Method. MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Directive).

6. Treasury Management Strategy 2018/19 to 2020/21

6.1. The capital expenditure plans summarised in Section 4 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the service activity. This involves the organisation of the cash flow and, where capital investment plans require, the organisation of appropriate borrowing facilities.

6.2. The treasury management service is therefore an important part of the overall financial management of the Council's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

6.3. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Council adopts the Code of Practice on Treasury Management and its revisions, which in itself is a key Prudential Indicator that it has complied with. As a result of adopting the Code, the Council also agreed to create and maintain a Treasury Management Policy Statement (TMPS) which states the policies and objectives of the Council's Treasury Management activities.

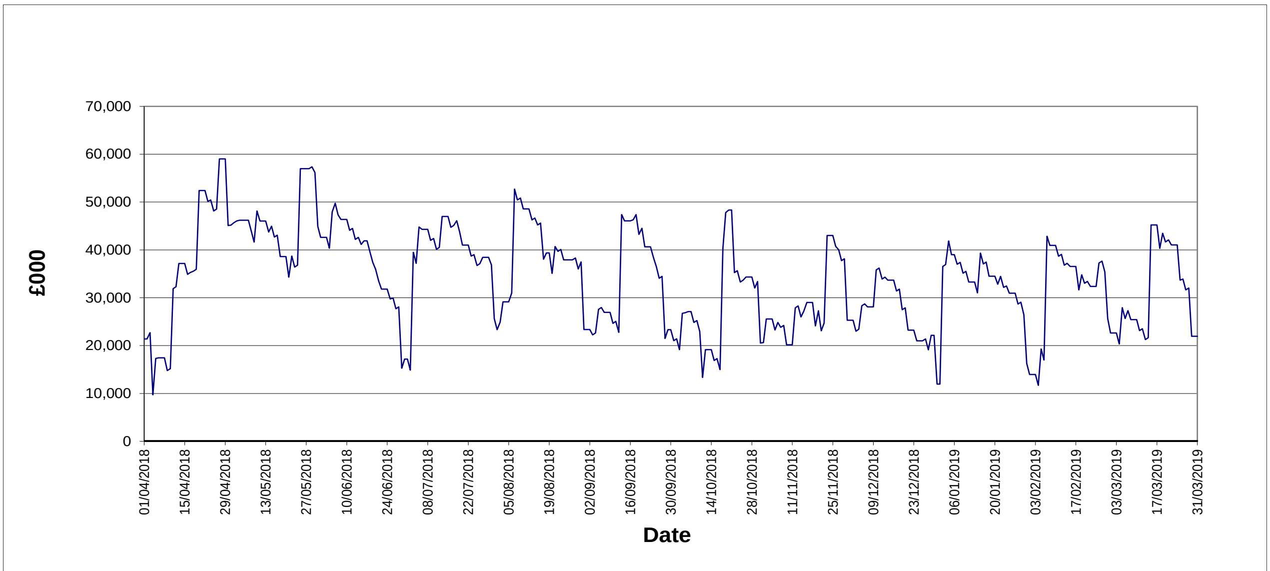
6.4. It is a requirement for an annual strategy to be reported to the Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

Day to Day Cash Management Activity

6.5. The Council's cash balances will fluctuate throughout the year as income is received and expenditure is made. Chart 1 shows the projected cashflow forecast for 2018/19 which is based on high level budget figures, historic trends and other information. It shows cash balances fluctuate between major receipt days, when government grant or the council tax precepts are received and major payment days such as the employees' pay day. The maximum level of cash balances is expected to be around £60m with the minimum level being £10m. Expected interest earnings are based on the cash flow as set out below (average balance approximately £30m) assuming an average interest rate of 0.40%.

6.6. The Council is by law expected to set a balanced budget, meaning that its cash inflows should broadly match its cash outflows over the medium term. The chart provides a useful guide to officers when formulating the borrowing and investment strategy.

Chart 1 – Dorset County Council Cashflow Forecast 2018/19



Borrowing Strategy

6.7. The Council can borrow long term funds from three main sources:

- The Public Works Loans Board (PWLB) is the government agency that provides long term funding to local authorities, with loans priced according to the gilt markets. Loans can be taken for periods of 1 to 50 years at fixed or variable rates.
- The Banking Sector also offer long term 'market' loans. The Council will consider borrowing from banks and financial institutions on a long term basis if this method of funding is advantageous compared to any other options available. Institutions have in the past offered loans up to 70 years and on a forward delivery basis.
- Internal Borrowing from Revenue Balances can be used to fund the capital programme. Cash balances are built up over time from the Council's on-going activities, and as the Council builds up reserves and makes provisions these are reflected in the cash balances it holds. The cash held can be used to

finance the capital programme, instead of borrowing externally. In reality the decision to borrow from cash balances will depend on the prevailing interest rate environment.

6.8. The borrowing strategy is affected by the economic outlook and prospects for interest rates. The low short term investment returns (currently less than 0.5%) compared to the cost of long term borrowing (currently approximately 3.0%) has meant the Council has been using its cash balances to fund capital spend rather than borrow. This has resulted in the Council's level of debt being significantly less than the CFR. This strategy means the Council is expected to be 'under borrowed' by approximately £85m at 31 March 2018. This has been deemed to be a prudent approach because of the low investment returns and relatively high counterparty risk.

6.9. However, with borrowing costs anticipated to increase at some stage over the next three years, and given the current high level of internal borrowing, attention needs to be given to the balance between internal and external borrowing. Over the next two years it may be prudent to borrow at lower rates and incur a cost of carry (the difference between the interest earned on investments against the cost of borrowing), in the knowledge that future long term borrowing is likely to be higher. The Chief Financial Officer will continue to monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances when making borrowing and investment decisions.

6.10. Officers regularly consider opportunities to reschedule borrowing whereby debts at a higher rate of interest are repaid and rescheduled at a lower interest rate. Although continuing low interest rates have made restructuring premiums prohibitive, the terms of a number of loans have been successfully renegotiated in 2017/18 leading to combined annual savings of approximately £100k.

7. Treasury Management Prudential Indicators 2018/19 to 2020/21

7.1. The Prudential Code places a number of restrictions on the debt management activities of the Council. These are to restrain the activity of the treasury function within certain limits to manage risk and reduce the impact of any adverse or sudden movements in interest rates. However, the limits have to be with sufficient flexibility to allow costs to be minimised and performance maximised.

Prudential Indicator 3 – External Debt

7.2. The Council needs to ensure that its long term gross debt does not exceed the projected CFR for the third year of the capital programme plans (the 2020/21 projected CFR in the case of this plan). This prevents the Council from over borrowing in the long term and thereby taking on excessive levels of debt, which could be unaffordable or unsustainable. However, it does provide the Council with the flexibility to borrow in advance of need if borrowing rates are favourable, or they are expected to increase.

7.3. External debt and other long term liabilities (including PFI contract and finance lease commitments) is expected to stand at £257m at 31 March 2018, significantly less than the CFR, which is estimated to stand at £342m at the same date, representing underborrowing of approximately £85m. The breakdown of this plus estimates of borrowing for 2018/19 to 2020/21 are summarised in the table below.

Table 3 External Debt 2016/17 to 2020/21

External Debt	**2016/17 Actual £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Debt at 1 April	184,341	213,282	222,423	232,423	232,423
Expected change in Debt	28,941	9,141	10,000	0	0
PFI / Finance Lease Liabilities	37,688	36,369	34,100	32,600	31,100
Expected change in PFI Liabilities	-1,319	-2,269	-1,500	-1,500	-1,500
Actual gross debt at 31 March	**249,651**	**256,523**	**265,023**	**263,523**	**262,023**
CFR	**336,343**	**341,754**	**351,303**	**348,230**	**350,186**
Under / (Over) Borrowing	**86,692**	**85,231**	**86,280**	**84,707**	**88,163**

Prudential Indicators 4 and 5 – Operational Boundary and Authorised Limits for External Debt

7.4. These indicators are at the core of the Prudential Code and reflect the limits that the Council imposes upon itself in relation to external borrowing.

7.5. The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In the majority of cases this should be a level similar to the CFR, plus an allowance for any short term borrowings that might be required for cash management purposes or unexpected calls on capital resources. It is the key management tool for in year monitoring of the Council’s expected capital and cashflow borrowing position.

Table 4 Operational Boundary for External Debt 2017/18 to 2020/21

	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Borrowing	350,000	360,000	360,000	360,000
Other long term liabilities	38,000	36,000	35,000	35,000
Total Operational Boundary	**388,000**	**396,000**	**395,000**	**395,000**

7.6. The proposed operational boundaries for external debt set out in Table 4 are based on the most likely, prudent, but not worst case scenario to allow for unusual cash movements, for example. For reference purposes they include the estimated level of CFR, and estimated levels of borrowing for each year. The policy of limiting the size of the CFR is reflected in the proposed operational boundary, which will be capped at the maximum level of the CFR plus £10m to allow for any short term cashflow borrowing. These limits separately identify borrowing from other long term liabilities such as finance leases.

7.7. The Authorised Limit for external debt uses the operational boundary as the starting point but includes a margin to allow for unusual and unpredicted cash movements. By its very nature, this margin is difficult to predict and it will be necessary to keep it under review for future years.

7.8. The Authorised Limit may not be affordable or sustainable in the long term, but represents the absolute maximum level of debt the Council can hold at any given time. It is a statutory limit determined under section 3 (1) of the Local Government Act 2003, and any breach will be reported to the County Council, with the Government having the option to control the plans of the Council. An allowance has been added to the operational boundary to provide for the possibility of extra borrowing becoming available during the year as the result of the Government supporting further schemes, as well as providing some headroom if the projection of cashflow borrowing were to change.

7.9. In respect of its external debt, it is recommended that the County Council approves the authorised limits for its total external debt for the next three financial years as set out in the table below.

Table 5 Authorised Limit for External Debt 2017/18 to 2020/21

	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Borrowing	355,000	360,000	370,000	380,000
Other long term liabilities	40,000	38,000	37,000	37,000
Total Authorised Limit	**395,000**	**398,000**	**407,000**	**417,000**

7.10. The Council is asked to delegate authority to the Chief Financial Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities on both the operational boundary and authorised limits. Any such changes made will be reported to the Council at its next meeting following the change.

<u>Prudential Indicators 6, 7 and 8 – Limits on interest rate exposure and maturity of debt</u>

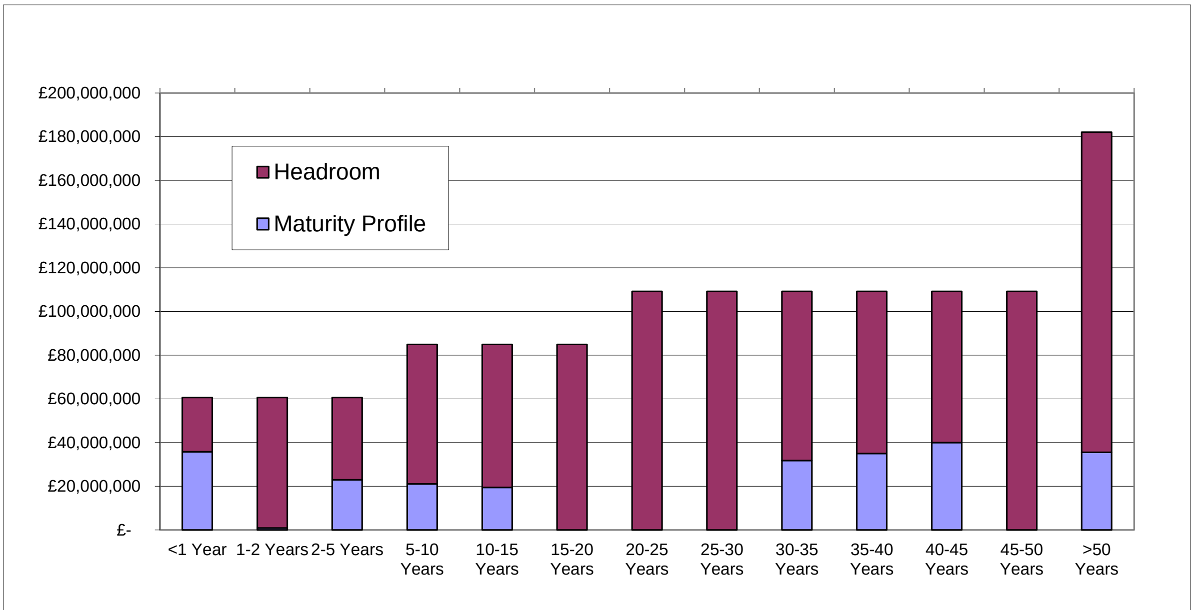
7.11. These three PIs are designed to minimise exposure to fluctuations in interest rates and refinancing risks, and also cap the interest costs of borrowing to provide stability to this area of the Council's finances. The indicators are detailed below and illustrated in the table and chart below:

- Upper limit on fixed interest rate exposure – this identifies a maximum revenue cost of interest paid on fixed rate debts and is intended to prevent the Council from being locked into rates of interest that it cannot easily exit.
- Upper limit on variable interest rate exposure – this identifies a maximum revenue cost of interest paid on variable debts, which is designed to minimise the budget exposure of the Council to movements in interest rates, a sudden increase in variable interest rates can cost the Council a significant sum of money, which this limit is intended to cap.
- Maturity Structure of Borrowing – this identifies the maximum level of exposure to loans maturing (being repaid) in any given year. The rationale is to prevent the Council from having adverse cashflow difficulties if a large proportion of its loans have to be repaid in the same year. Chart 2 shows the current maturity profile, in relation to the limits that have been set.

Table 6 – Limits on Interest Exposure and Maturity of Debt

	2018/19 Upper £000	2019/20 Upper £000	2020/21 Upper £000
PI 6 Limits on net fixed interest rates payments	12,000	13,000	13,000
PI 7 Limits on net variable interest rate payments	2,000	2,000	2,000
PI 8 Maturity Structure of fixed interest rate borrowing 2018/19		**Lower**	**Upper**
Under 12 Months		0%	25%
12 Months to 2 Years		0%	25%
2 Years to 5 Years		0%	25%
5 Years to 10 Years		0%	35%
10 Years to 15 Years		0%	35%
15 Years to 20 Years		0%	35%
20 Years to 25 Years		0%	45%
25 Years to 30 Years		0%	45%
30 Years to 35 Years		0%	45%
35 Years to 40 Years		0%	45%
40 Years to 45 Years		0%	45%
45 Years to 50 Years		0%	45%
50 Years and above		0%	75%

Chart 2: Debt maturity limits compared to actual debt maturity profile at 31 March 2018



8. Annual Investment Strategy

8.1. Cash balances are invested on a daily basis using call accounts, pooled money market funds and by making deposits with the Council's bank. Longer term investments can also be made; and in the current market, such investments earn more interest than the shorter term investments, however, there is a balance to be achieved between ensuring availability of cash to pay the bills and taking advantage of these higher interest rates. In practice there will be heavy bias towards shorter term deposits.

8.2. The primary objectives of the Council's investment strategy are detailed in the Investment Policy detailed in Appendix 1. The objectives, in order of priority, are:

1. The security of funds invested – ensuring that the funds will be repaid by the counterparty to the Council at the agreed time and with the agreed amount of interest;
2. The liquidity of those funds – ensuring the Council can readily access funds from the counterparty;
3. The rate of return – ensuring that given (1) and (2) are satisfied that return is maximised.

8.3. The Investment Policy takes into account the economic outlook and the position of the banking sector in assessing counterparty security risk. Since the banking crisis of 2008 the operational investment strategy adopted by the Council has tightened the controls already in place. In doing so the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the Specified and Non-Specified investment sections explained in Annex A of the Investment Policy. Risk of default by an individual borrower is minimised by placing limits on the amount to be lent.

8.4. The Policy introduces further measures that are taken to minimise counterparty risk, as a result officers work to:

- a prescribed list of countries that it can invest in;
- a list of institutions that it can invest with,
- maximum cash limits that can be invested with these institutions, and
- restrictions on the length of time investments can be held with these approved institutions.

8.5. The counterparty list is maintained by Link who monitor it on a real time basis. The Council receives a weekly update, but a new list can be distributed at any time if there is any adverse news about any of the institutions on it.

8.6. In addition to the restrictions that the Council places upon itself to maximise security, ensure liquidity and maximise yield, the prudential code sets limits on the maximum period of time monies can be invested for. These are set out in the table below:

Table 7: Maximum principal sums invested >365 days

	2017/18 £000	2018/19 £000	2019/20 £000
Maximum amount invested > 364 Days	20,000	20,000	20,000
% of which can be up to 2 years	100%	100%	100%
% of which can be up to 3 years	75%	75%	75%
% of which can be up to 4 years	50%	50%	50%
% of which can be up to 5 years	25%	25%	25%

9. Sensitivity to Interest Rate Movements

9.1 The Council's accounts are required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified.

9.2 The table below highlights the estimated impact of a 1% increase or decrease in all interest rates to the estimated treasury management costs or income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Table 8: Impact on Revenue Budget of a 1% change in Interest Rates

	Variable Rate Debt / Investments £000	2018/19 Estimated + 1% £000	2018/19 Estimated - 1% £000
Interest on Borrowing[1]	0	0	0
Investment Income[2]	30,000	300	(300)
Net Benefit / (Cost) to Council		300	(300)

1) The Council is not expected to hold any variable rate debt in 2018/19.
2) Average projected balances for 2018/19.

10. Risk Assessment

10.1. The primary risks to which the Council is exposed in respect of its treasury management activities are adverse movements in interest rates and the credit risk of its investment counterparties. Either may jeopardise the Council's ability to maintain its financing strategy over the longer term.

10.2. The net interest costs of the Council are not significant in relation to its overall revenue budget. Significant changes in the level of interest rates are unlikely to result in an unmanageable burden on the budget position of the Council.

10.3. Treasury Management risk can be reduced in the following ways:

- diversification of lending by setting criteria and limits for investment categories and individual borrowers. Risk is controlled by the formulation of suitable criteria for assessing and monitoring the credit risk of borrowers and the construction of the lending list comprising time, type, sector and specific counterparty limits. This is covered in more detail in the following section.

- balancing cash flow needs, as determined by the forecast, with the outlook for interest rates, whilst ensuring enough cover for emergencies
- use of money market funds and longer term lending to enhance diversification.

10.4. In addition, the CIPFA Code requires the policy to show who is responsible for which decision, the limits on the delegation and reporting requirements. This has been in place for some years and is reproduced at Appendix 2.

10.5. The Council's Treasury Management Practices document sets out in detail the systems and processes (including internal checks) that have been introduced to reduce the risk of losses due to fraud, negligence and error.

11. Performance Indicators

11.1. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

11.2. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing – Average rate of borrowing for the year compared to average available;
- Debt – Change in the average cost of debt year on year;
- Investments – Internal returns above the 7 day LIBID rate.

11.3. In managing Treasury Management performance a number of annual benchmarking exercises are done to monitor the relative performance and to ensure best practice, this benchmarking includes these performance indicators and represents the most effective way of managing performance. A review of performance is presented as part of the Outturn Report each year.

12. Member and Officer Training

12.1. The high level of risk inherent in treasury management means officers need to be adequately experienced and qualified. Officers attend national treasury management events and training courses and have twice yearly strategy and review meetings with Link, as well as regular contact over the telephone.

12.2. A training session for all elected Members was held in January 2018 and run by Link to explain the basics and outline the responsibilities that Members have in relation to treasury management. It is Dorset County Council policy to offer training to Members where it is felt to be appropriate and relevant.

13. Local Government Reorganisation (LGR)

13.1. Following the end of the consultation period on 8 January 2018, it is anticipated that Sajid Javid, the Secretary of State for Housing, Communities and Local Government, will shortly make a final decision on the Future Dorset proposal to replace Dorset's existing nine councils with two new unitary councils from April 2019.

13.2. The preferred option in the Future Dorset proposal was for Bournemouth Borough Council, the Borough of Poole and Christchurch Borough Council to form one unitary council, with the six other councils forming the other. Should this preferred option be supported by the Secretary of State then it will be necessary to 'disaggregate' existing investments and borrowings attributable to Christchurch

Borough Council from the County Council's assets and liabilities. The process for doing so will be developed and agreed during 2018/19, in common with other services and activities of the County Council provided to Christchurch Borough Council.

14. Conclusion

14.1. This report sets out the Treasury Management Strategy for 2018/19 to 2020/21 and, in particular, shows the anticipated cash flow for the Council and how in practice this is to be managed to optimise interest earnings and minimise borrowing cost whilst meeting daily cash needs.

14.2. An extensive risk analysis has been carried out on the treasury management operation supported by the County Council's treasury management advisers, Link Asset Services, and it is considered that a high level of risk avoidance has been established by the combination of policies and working practices in place. Particular attention is given to the quality of lenders used and the processes used on a day to day basis to avoid any losses due to fraud, negligence, and error.

14.3. Various options exist regarding the precise manner in which the capital programme is financed, and these are highlighted in paragraph 6.7. The Code of Practice provides that final decisions on the actual financing of capital expenditure, rests with the Chief Financial Officer after taking advice from Link.

14.4. As required by the Code, the report sets out the required Prudential Indicators and in accordance with the guidance any revisions required will be brought to the Cabinet for approval.

Richard Bates
Chief Financial Officer
January 2018

APPENDIX 1

Dorset County Council - Investment and Credit Worthiness Policy

1. Investment Policy

1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

1.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

1.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisers to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

1.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

1.5 Investment instruments identified for use in the financial year are listed in Annex A of this Policy under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices schedules.

2. Creditworthiness Policy

2.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains this policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in Annex A - Specified and Non-Specified investments; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

2.2 Risk of default by an individual borrower is minimised by placing limits on the amount to be lent. These limits use, where appropriate, credit ratings from Fitch, Standard and Poors, and Moodys Credit Rating Agencies. All banks and building societies used by Dorset County Council will have a long-term rating of at least A- and a minimum short term rating of F1. Long-term ratings vary from AAA (the highest) down to D the lowest. Short-term ratings vary from F1+ (the highest) down to D. Individual ratings vary from A (the highest) down to E, and these are now being replaced by viability ratings (aaa the highest, to c the lowest) and estimate how likely the bank is to need assistance from third parties. The limits to be used are set out in paragraph 2.6.

2.3 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which type of investment instrument are either Specified or Non-Specified investments as it provides an overall pool of counterparties considered to be high quality that the Council may use, rather than defining what types of investment instruments are to be used.

2.4 Credit rating information is supplied by the Council's treasury management advisers, Link Asset Services, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are monitored and provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

Security

2.5 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

i. Sovereign Ratings

2.5.1 The Council will only lend to counterparties in countries with the highest sovereign Credit Rating of AAA. The maximum that can be deposited with banks in any one sovereign is £30m at any time. The exception to both rules is the United Kingdom.

ii. Counterparties with Good Credit Quality

2.5.2 The Council will lend to counterparties with the following counterparty ratings:

Table 1 Counterparty Ratings

Category	Minimum Credit Rating	Limit
Any Local Authority	n/a	£15 Million
Banks & Building Societies	Short F1, Long A-	£15 Million
Money Market Funds	AAA	£15 Million (individual)
Money Market Funds Notice Account	AAA	£10 Million (individual)
UK Government including gilts and the Debt Management Account Deposit Facility (DMADF)	n/a	no limit

2.5.3 Where a counterparty is part of a larger group, it is appropriate to limit the Council's overall exposure to the group. Individual counterparties within the group will have their own limit, but will be subject to an overall limit for the group. The limit for any one group will be £15M, except in the case of the four major UK banking groups where the limit is £20M.

iii. Part Nationalised Banking Groups

2.5.4 The Council will continue to use banking groups whose ratings fall below the criteria specified above if that banking group remains part nationalised, up to a limit of £20M for the group.

iv. Council's own banker

2.5.5 The limit for the Authority's own bank is £20M, however, due to occasional short term unexpected cashflows this limit may be breached. For this reason additional flexibility of an additional £1M is allowed to cover such movements, and to minimise the transaction costs involved with moving small sums of money. Over the long term the £20M should be the maximum. The breaches of the £20M limit will be monitored and reported to the Chief Financial Officer on a monthly basis.

2.5.6 If the Council's own banker, NatWest, fell below the Council's criteria, it would continue to be used for transactional and clearing purposes with the maximum balances deposited with them overnight being limited to £500k.

v. Major UK Banks

2.5.7 The Council may invest up to £20M with each of the four major UK banking groups, Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC, and The Royal Bank of Scotland PLC (which owns the Council's bank, National Westminster Bank PLC), taking into account the restrictions of group limits and any other limits which apply. These four banking groups were added explicitly to the Treasury Management Strategy with the rationale that in a worst case scenario, all of the Council's cash could be placed across these four banks.

vi. Use of Additional Information other than Credit Ratings

2.5.8 Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches / Outlooks) will be applied to compare the relative security of differing investment counterparties.

Liquidity

2.6 Liquidity is defined as an organisation "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice).

2.7 In addition it is prudent to have rules for the balance of investment between short term and longer term deposits to maintain adequate liquidity. They are:

i. Fixed Term Investments

2.8 A minimum cash balance of £10M must be maintained in call accounts or instant access Money Market Funds. Any amount above this can be invested in fixed term deposits.

ii. Call Deposits

2.9 The amount of call deposits (instant access accounts) should be a minimum of £10M to allow for any unforeseen expenditures, up to a maximum of 100%. From time to time, it may be necessary for call deposits to fall below £10M, when this occurs it should be for no more than one working day. The breaches of the £10M limit will be monitored and reported to the Chief Financial Officer on a monthly basis.

iii. Time and Monetary limits applying to Investments

2.10 The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

Table 4 – Time and Monetary Limits

	Minimum Long Term and Short Term Counterparty Rating (LCD Approach)	**Money Limit**	**Time Limit**
Any Local Authority	n/a	£15 Million	5 Years
Banks & Building Societies	AA- / F1+	£15 Million	5 Years
Banks & Building Societies	A- / F1	£15 Million	364 Days
Major UK Banks*	n/a	£20 Million	5 Years
Money Market Funds	AAA	£15 Million (individual)	Overnight
Money Market Funds	AAA	£10 Million (individual)	7 Day Notice
UK Government including gilts and the DMADF	n/a	Unlimited	6 Months
Part Nationalised Banking Groups	n/a	£20 Million	5 Years
Council's Own Banker	n/a	£20 Million	Overnight
*(Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC and The Royal Bank of Scotland PLC)			

iv. Longer Term Instruments

2.11 The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-Specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will be limited to counterparties rated AA- long term, and F1+ short term. The level of overall investments should influence how long cash can be invested for. For this reason it has been necessary to introduce a sliding scale of limits that depend on the overall size of cash balances. The smaller the size of the overall cash balances the more important it is that the money is kept liquid to meet the day to day cashflows of the organisation. Likewise if cash balances are large, a greater proportion of the funds can be invested for longer time periods. Table 5 sets out the investment limits.

Table 5 Time Limits for Investments over 365 days

Time Limit	**Money Limit invested with Counterparties rated AA- - F1 + and above – or UK 4 Major Banking Groups**	
Projected Annual Balances	**%**	
More than 1 year, no more than 2 years	100%	£20M
More than 2 years, no more than 3 years	75%	£15M
More than 3 years, no more than 4 years	50%	£10M
More than 4 years, no more than 5 years	25%	£5M
In Total £M		**£20M**

2.12 In the normal course of the council's cash flow operations it is expected that both Specified and Non-Specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

2.13 A summary of the proposed criteria for investments is shown in Annex B, and a list of counterparties as at 2 January 2018 in accordance with these criteria is shown as Annex C to this policy for information.

Investment Policy - Treasury Management Practice 1- ANNEX A

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

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

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sector Guidance Notes. This Council adopted the Code during 2002 and will apply its principles to all investment activity. In accordance with the Code, the Chief Financial Officer has produced the Council's treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

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

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

The investment policy proposed for the Council is set out below.

Strategy Guidelines

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

Specified Investments

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

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set

additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). This would include investments greater than 1 year in duration. It is proposed that counterparties will be restricted to those in the specified category above when investing for more than a year. In total these longer term loans will be limited to £50M of the total investment portfolio and this has been determined with regard to the forecasts of future cash flow.

The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer, and if required new counterparties which meet the criteria will be added to the list.

Summary of Investment Criteria

INVESTMENT POLICY ANNEX B

Paragraph	Criteria	Minimum Rating		Maximum Investment and Exceptions
		Long	Short	
Sovereign Limit for All Loans				
2.5.1	**AAA Sovereign Rating**	n/a	n/a	£20 Million with any one sovereign, UK no limits
Notice Money				
A minimum of 10% of total investments, up to a maximum of 100%				
2.5.5	**Council's own Banker**	n/a	n/a	£20 Million
2.5.2	**Money Market Funds**	AAA		£15 Million individual
2.5.2	**Money Market Fund Notice Account**	AAA	n/a	£10 Million individual
Fixed Term Investments				
Limited to the amount of excess balances for that term less a margin of £10 Million				
Up to 6 months				
2.5.2	**UK Government including gilts and DMADF**			Unlimited
Up to 364 Days				
2.5.2	**Any Local Authority**			£15 Million
2.5.2	**Banks & Building Societies**	A-	F1	£15 Million Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 2.5.4, 2.5.5, 2.5.6, 2.5.7 for exceptions
2.5.7	**Four Major UK Banking Groups**: Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	N/a	N/a	£20 Million
Up to 5 years				
2.5.7	**Major Banks & Building Societies**	AA-	F1+	£15 Million per bank Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 2.5.4, 2.5.5, 2.5.6, 2.5.7 for exceptions
2.5.4	**Part Nationalised Banking Groups:** Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	n/a	n/a	£20 Million

Investment Policy ANNEX C
Counterparty list as at 2 January 2018

	Lowest Long Term Rating*	Lowest Short Term Rating*	Money Limit (£m)	Time Limit
UK Banks and Building Societies				
HSBC Bank PLC	AA-	F1+	20	5 YEARS
Lloyds Banking Group:				
Bank of Scotland PLC	A+	F1	20 (group) (M)	5 YEARS
Lloyds Bank PLC	A+	F1	20 (group) (M)	5 YEARS
Royal Bank of Scotland Group:				
National Westminster Bank	BBB+	F2	20 (group) (M)	5 YEARS
Royal Bank of Scotland	BBB+	F2	20 (group) (M)	5 YEARS
Barclays Bank	A	F1	20 (M)	5 YEARS
Close Brothers Ltd	A	F1	15	364 DAYS
Santander UK Plc	A	F1	15	364 DAYS
Standard Chartered Bank	A+	F1	15	364 DAYS
Coventry Building Society	A	F1	15	364 DAYS
Nationwide Building Society	A+	F1	15	364 DAYS
Goldman Sachs International Bank	A	F1	15	364 DAYS
Sumitomo Mitsui Banking Corporation Europe Limited	A	F1	15	364 DAYS
UBS Ltd	AA-	F1+	15	364 DAYS
Abbey National Treasury Services	A	F1	15	364 DAYS
Australian Banks				
National Australia Bank Limited	AA-	F1+	15	5 YEARS
Australia and New Zealand Banking Group	AA-	F1+	15	5 YEARS
Commonwealth Bank of Australia	AA-	F1+	15	5 YEARS
Macquarie Bank Limited	A	F1	15	364 DAYS
Westpac Banking Corporation	AA-	F1+	15	5 YEARS
Canadian Banks				
Canadian Imperial Bank of Commerce	AA-	F1+	15	364 DAYS
Bank of Montreal	AA-	F1+	15	364 DAYS

Bank of Nova Scotia	AA-	F1+	15	364 DAYS
National Bank of Canada	A+	F1	15	364 DAYS
Royal Bank of Canada	AA	F1+	15	364 DAYS
Toronto-Dominion Bank	AA-	F1+	15	5 YEARS
German Banks				
Landwirtschaftliche Rentenbank	AAA	F1+	15	5 YEARS
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	15	5 YEARS
Landesbank Hessen-Thuringen Girozentrale	A+	F1+	15	364 DAYS
Landesbank Baden-Wurttemberg	A-	F1	15	364 DAYS
BayernLB	A-	F1	15	364 DAYS
Luxembourg Banks				
European Investment Bank	AAA	F1+	15	5 YEARS
Netherlands Banks				
ABN AMRO Bank N.V.	A+	F1	15	364 DAYS
Bank Nederlandse Gemeenten N.V.	AA+	F1+	15	5 YEARS
Cooperatieve Rabobank U.A.	AA-	F1+	15	364 DAYS
ING Bank N.V.	A+	F1	15	364 DAYS
Singaporean Banks				
DBS Bank Ltd.	AA-	F1+	15	5 YEARS
Oversea-Chinese Banking Corp	AA-	F1+	15	5 YEARS
United Overseas Bank Limited	AA-	F1+	15	5 YEARS
Swedish Banks				
Nordea Bank AB	AA-	F1+	15	5 YEARS
Svenska Handelsbanken AB	AA	F1+	15	5 YEARS
Swedbank AB	AA-	F1+	15	5 YEARS
Skandinaviska Enskilda Banken	AA-	F1+	15	364 DAYS
Swiss Banks				
UBS AG	AA-	F1+	15	364 DAYS
Credit Suisse AG	A	F1	15	364 DAYS

**Fitch equivalent ratings have been used for comparative purposes.*

APPENDIX 2

Policy of Delegation

The Code requires the policy of delegation to show who is responsible for which decision, the limits on the delegation and reporting requirements.

The code also requires the responsibilities of council, committee and Chief Officers to be set out. In summary they are as follows: -

The County Council – approval of recommendations from the Cabinet and annually the borrowing limits.

The Cabinet – approval of the Treasury Management Strategy Statement, and from time to time the review of the Treasury Management Strategy Statement.

Audit & Governance Committee – to ensure effective scrutiny of the treasury management strategy and policy, through receiving regular reports from the Chief Financial Officer.

The Chief Financial Officer – approval of draft policy statement, regular monitoring of activities and reporting on these activities to Committee.

Finance Manager (Treasury & Investments) – monitor implementation of policy, review policy, preparation of monitoring reports for the Chief Financial Officer, appointment of money brokers and advisers and monitor day to day implementation of policy set and approval of deals on a day to day basis.

Investment Technician – carry out day to day deals in accordance with policy.

Head of the paid service – the Chief Executive – that the system is laid down and resourced and that the Chief Financial Officer makes the required regular reports to elected members.

Monitoring Officer – the Head Legal Services – ensuring compliance by the Chief Financial Officer.

Internal Audit – the policing of the arrangements.

In addition to these delegations there is in place a comprehensive system of checks within Corporate Resources involving several members of staff, which operates on each individual money deal.