TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2015/16
Service & Resource Planning 2015/16 – 2017/18
Report by the Chief Finance Officer

1. Executive Summary

1.1. The Treasury Management Strategy Statement complies with the requirements of the Local Government Act 2003, The Prudential Code for Capital Finance in Local Authorities (2011), the 2012 revisions to The Prudential Code, The Treasury Management Code of Practice (2011), the Department for Communities & Local Government Guidance on Local Authority Investments (2010), and incorporates the Annual Investment Strategy for 2015/16.

1.2. The Council is required to approve Prudential Indicators for 2015/16, 2016/17 and 2017/18. DRAFT Prudential Indicators are set out at Appendix A. These are currently INCOMPLETE as they are dependent upon updates to the Capital Programme but will be included in the Treasury Management Strategy Statement as an annex to the Service and Resource Planning Report to be approved by Council on 17 February 2015.

1.3. The strategy for financing prudential borrowing during 2015/16 maintains the option to use temporary internal balances. It also includes the option to forward borrow on behalf of the Oxfordshire Local Enterprise Partnership via the Public Works Loan Board or the money markets.

1.4. The Annual Investment Strategy for 2015/16 is based on an average base rate of 0.625% and assumes an average return of 0.70%. The average cash balance for 2015/16 is forecast to be £300m, including externally managed funds. The list of proposed specified and non-specified investment instruments are set out in full in Appendices C and D respectively. The maximum maturity and duration limits for counterparties are currently determined by matrices based on Fitch credit ratings. The matrices proposed for 2015/16 and the full rationale for determining the credit worthiness of existing and potential counterparties is set out in paragraphs 8.16 to 8.31.

1.5. The Council intends to continue to place funds in pooled funds with the external fund managers. Further details are given in section 9.

1.6. The Council will continue to prioritise the security and liquidity of capital. The Council will aim to achieve investment returns that are commensurate with these priorities. To achieve this, the Treasury Management Strategy Team (TMST) will aim to maintain a balanced portfolio between longer term deposits with high credit quality counterparties and investments in liquid instruments and shorter term deposits with Money Market Funds (MMFs), local authorities and high credit quality financial institutions.

1.7. Revisions to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice in 2011 following the granting of the general power of competence to local authorities in the Localism Act 2011 require the Council to state its policy on the use derivatives. This is set out in section 11.

1.8. The Council will continue to benchmark the performance of the Treasury Management function through membership of the CIPFA benchmarking club and the benchmarking undertaken by the Council's Treasury advisor Arlingclose. In-house performance will also continue to be benchmarked against 3-month London Interbank Bid Rate (LIBID).

1.9. The recommendations arising from the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16 are set out in section 15.

Treasury Management Strategy Statement & Annual Investment Strategy for 2015/16

2. Background

2.1 The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). The Annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.3 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.4 The proposed strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the views of the Council's Treasury Management Strategy Team (TMST)[1], informed by market forecasts provided by the Council's treasury advisor, Arlingclose Limited. The strategy covers:

- Treasury limits in force which limit the treasury risk and activities of the Council;
- Treasury Management Prudential Indicators for 2015/16, 2016/17 and 2017/18;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- the borrowing requirement and
- the Annual Investment Strategy.

2.5 It is a statutory requirement for the Council to produce a balanced budget and to calculate its council tax requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue caused by increased borrowing to finance additional capital expenditure, and any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

[1] Comprising the Chief Finance Officer, Service Manager - Pensions, Insurance and Money Management, Principal Financial Manager – Treasury & Pension Fund Investments, Financial Manager – Treasury Management, and Financial Manager – Pension Fund Investment.

2.6 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The code was adopted by Council on 1 April 2003. All treasury activity will comply with relevant statute, guidance and accounting standards.

3. Treasury Limits for 2015/16 to 2017/18

3.1 It is a statutory duty, under section 3 (1) of the Local Government Act 2003, for the Council to determine and keep under review the amount it can afford to borrow. This amount is termed the ‘Affordable Borrowing Limit’ and is equivalent to the ‘Authorised Borrowing Limit’ as specified in the Prudential Code.

3.2 The Authorised Borrowing Limit requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax levels is ‘acceptable’.

3.3 Whilst termed an “Affordable Borrowing Limit” within the Act, the capital plans to be considered for inclusion incorporates financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

4. Prudential Indicators for 2015/16 to 2017/18

4.1 The Prudential Code for Capital Finance in Local Authorities (2011) requires the Council to set and monitor against Prudential Indicators in the following categories:

- Affordability
- Prudence
- Capital Expenditure
- External Debt
- Treasury Management

Further Treasury Management indicators are specified in the Code of Practice on Treasury Management (2011).

4.2 Prudential Indicators are set out in full at Appendix A to this strategy:

i. Gross debt and the Capital Financing Requirement
ii. Estimates of Capital Expenditure
iii. Ratio of Financing Costs to Net Revenue Stream
iv. Capital Financing Requirement
v. Incremental Impact of Capital Investment decisions
vi. Authorised Limit and Operational Boundary for External Debt
vii. Actual External Debt
viii. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice
ix. Gross and net debt
x. Upper and lower limits to maturity structure of fixed rate borrowing

xi. Upper limits on fixed and variable rate interest exposures
xii. Upper limit to total of principal sums invested longer than 364 days

4.3 Prudential Indicators are reported to and monitored by the TMST on a regular basis and will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2014/15 and the Treasury Management Mid-Term Review 2015/16, which will be considered in July and November 2015 respectively.

5. Forecast Treasury Portfolio Position

5.1 The Council's treasury forecast portfolio position for the 2015/16 financial year comprises:

	Principal £m	**Average Rate %**
Opening External Debt Balance		
PWLB	349.383	4.52%
Money Market Loans	50.000	3.94%
TOTAL EXTERNAL DEBT	399.383	
2015/16 Average Cash Balance		
Average In-House Cash	230.000	
Average Externally Managed	70.000	
TOTAL INVESTMENTS	300.000	

5.2 The average forecast cash balance is comprised of the following:

	Average Balance £m
Earmarked Reserves	43.0
Capital and Developer Contributions	117.5
General Balances	16.5
Cashflow and Working Capital Adjustments	107.8
Provisions and Deferred Income	15.2
TOTAL	**300.0**

5.3 The cashflow and working capital adjustment average balance currently includes the impact of the front loading of grants received from central government departments. If the timing of grants moves away from the current profile, this would result in a decrease in the average balance.

6. Prospects for Interest Rates

Economic Background

6.1 There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant.

6.2 Bank Rate has been maintained at 0.50% throughout the financial year. The Monetary Policy Committee's (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. Despite two Committee members having voted for a 0.25% increase in rates at each of the meetings from August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August Inflation Report.

6.3 The unemployment rate for August to October 2014 was 6.0% of the economically active population, down 0.2% from May to July 2014 and down 1.4% from a year earlier. Inflationary pressure remains low, with CPI falling to 1% in November 2014, easing pressure on the MPC to increase the Bank Rate.

6.4 From August to October 2014 average total pay (including bonuses) rose by 1.4% year-on-year. On a single month basis, average weekly earnings were 1.8% higher in October 2014 year-on-year. Regular pay (excluding bonuses) rose by 1.6% in the three months to October 2014 compared to the previous year. On a single month basis, regular pay was 1.8% higher in October 2014 year-on-year. The CPI rate was 1.3% in October 2014, suggesting that wages rose marginally in real terms.

6.5 The transposition 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 brings 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 through a “bail-in” for a failing bank after July 2015.

6.6 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 Authority.

Current Medium Term Financial Plan

6.7 The strategy for 2014/15 approved by Council in February 2014 set out forecast interest rates over the medium term. The forecast was for an average base rate of

- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 0.75%
- 2017/18 1.00%

These interest rates were used as a basis for constructing the strategic measures budget for 2014/15 to 2017/18.

Arlingclose's View

6.8 The Council uses the services of Arlingclose Limited to provide investment advice to the Council, as part of this service they help the Council to formulate a view on interest rates.

6.9 Arlingclose forecast the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%.

6.10 Arlingclose project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; with a forecast rate of 1.75% for March 2018.

6.11 Arlingclose also provide upside (rates being higher) and downside risks (rates being lower) to their forecast. The upside risk given for base rate ranges from 0.25% in June 2015 to 0.50% in March 2018. Downside risks range from zero in June 2015 to 1.00% in March 2018. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year.

6.12 Arlingclose expect the 1 year LIBID[2] rate to rise from 1.05% to 2.50% over the same period, indicating that short-term borrowing will become more expensive.[2]

[2] LIBID is the London Interbank Bid Rate which represents the rate at which a bank is willing to borrow from other banks.

Treasury Management Strategy Team's View

6.13 The Council's TMST, taking into account the advice from Arlingclose, and the current economic outlook, have determined the rates to be included in the Strategic Measures budget for 2015/16 and over the medium term. The Bank Rate forecasts set out below represent the average rate for the financial year:

- 2015/16 0.625%
- 2016/17 1.125%
- 2017/18 1.625%
- 2018/19 2.125%

6.14 The TMST team has agreed that based on the current portfolio of deposits and market rates, the target return rate should be 0.70% in 2015/16, reducing to the forecast average base rate for 2016/17 to 2018/19. The reason for the reducing margin above base rate is that the portfolio includes some longer-term deposits which were arranged in previous financial years, when market rates for longer-term loans were higher than those currently available with similar counterparties. As existing long-term deposits arranged with higher rates mature, the average portfolio rate will continue to reduce. Additionally there is considerable uncertainty about the effects that the EU banking directives will have on the Council's ability to secure returns above base rate. This being a result of the need to find more secure investment opportunities and the limiting effect this may have on the availability of suitable instruments and counterparties. These rates have been incorporated into the strategic measures budget estimates:

- 2015/16 0.700%
- 2016/17 1.125%
- 2017/18 1.625%
- 2018/19 2.125%

7. Borrowing Strategy

Arlingclose's View

7.1 The Public Works Loan Board (PWLB) sets new borrowing rates at the gilt yield plus 1.00%. Arlingclose have forecast gilt yields as follows:

- The 50 year gilt yield is expected to start the financial year at 3.05%, increasing gradually to 3.60% by March 2018.
- The 20 year gilt yield is expected to start the financial year at 2.95% rising to 3.55% by the end of the forecast in March 2018.
- The 10 year gilt yield is expected to start the financial year at 2.45%, rising to 3.05% by March 2018.
- The 5 year gilt yield is expected to start the financial year at 1.75% and to reach 2.90% by March 2018.

7.2 Arlingclose's forecasts have an upside variation range of between 35 and 55 basis points, and a downside variation range of between 35 and 70 basis points depending on the economic and political climate.

Treasury Management Strategy Team's View

7.3 It is expected that the Bank Rate will remain low during 2015/16 and that there will continue to be a high "cost of carry[3]" associated with the long term borrowing compared to temporary investment returns. The TMST will continue to monitor the Council's debt portfolio and will consider debt repayment if it is in the Council's interest.

7.4 In April 2011 the Government replaced the 'credit approval' system for capital financing with direct provision of capital resources in the form of capital grant. This means that the Council only needs to borrow to finance prudential borrowing schemes. The Council's Capital Financing Strategy applies capital grants, developer contributions, capital receipts and revenue contributions to fund capital expenditure before using prudential borrowing. This means that the majority of the current capital programme is fully funded without the need to take up any new borrowing.

7.5 Financing the Council's borrowing requirement internally would reduce the cost of carry in the short term but there is a risk that the internal borrowing would need to be refinanced with external borrowing at a time when PWLB and market rates exceed those currently available. This could result in higher financing costs over the long term.

7.6 Internal borrowing is a short term financing solution as cash surpluses are temporary balances made up of creditors over debtors, earmarked reserves and capital reserves. As reserves are drawn down for their earmarked purpose internal borrowing will need to be replaced with external borrowing.

7.7 The Council's TMST have agreed that they should continue to have the option to fund new or replacement borrowing up to the value of 25% of the portfolio through internal borrowing. This will have the effect of reducing some of the "cost of carry" of funding. Internal borrowing will also be used to finance prudential schemes.

7.8 If market conditions change during the 2015/16 financial year such that the policy to borrow internally is no longer in the short term or long term interests of the Council, the TMST will review the borrowing strategy and report any changes to Cabinet.

7.9 As the Accountable Body for Oxfordshire Local Enterprise Partnership (OxLEP), the Council will be required to prudentially borrow £36.5m on behalf of OxLEP for project funding from 2015/16 onwards. The loans will be repaid through the retained business rates of OxLEP. This represents projects to be delivered by the

[3] The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

Council. The TMST monitor PWLB rates and will consider forward borrowing on behalf of OxLEP in 2015/16 if it is determined to be cost-effective. This is consistent with the expectation that interest rates and Gilt yields will begin to rise over the period.

7.10 As part of the Local Growth Fund bids OxLEP are able to apply for the Public Works Loan Board (PWLB) project rate, at 40 basis points below the standard rate across all loan types and maturities. This discounted borrowing is available to support strategic local capital investment projects. This aims to give LEPs, in consultation with LAs, the power to prioritise the projects that best support shared local goals. Qualification is dependent on government acceptance of a business case from OxLEP, agreed with the Council, setting out borrowing requirements for projects.

7.11 For 2015/16 OxLEP have applied for £20m of borrowing at the project rate discount. This does not constrain access to borrowing at the standard or certainty rates (see below), nor is OCC compelled to borrow up to the full amount. The project rate must not be used to displace or refinance existing borrowing.

7.12 The Council's chief objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

Borrowing for the Capital Financing Requirement

7.13 The Council's Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing. The CFR is the value of the Council's assets that have not been permanently financed, in other words, borrowing has been used to finance spending. When capital expenditure is financed by grants, capital receipts or direct contributions from revenue this is not included the CFR.

7.14 The Council is required to make an annual contribution from revenue towards the repayment of debt termed the Minimum Revenue Provision (MRP). This contribution reduces the CFR and effectively provides the resource to permanently finance the capital expenditure and reduce the Council's borrowing requirement by that amount. The Council's MRP Policy Statement sets out the methodology that the Council applies in its MRP calculation. The statement is agreed by Council each year in February alongside the budget and capital programme and is included at Appendix B. Cabinet is recommended to recommend to Council to approve the policy.

7.15 Under the Prudential Code, the Council must ensure that gross external borrowing does not, except in the short term, exceed the sum of the CFR in the previous year plus estimates of any increases to the CFR for the current and next two financial years. Where the gross debt is greater than the CFR the reasons for this should be clearly stated in the annual treasury management strategy. The Council's current position is set out below.

7.16 The Council's CFR is currently forecast to increase over the medium term financial plan. This is a result of the requirement to borrow on behalf of the Oxfordshire Local Enterprise Partnership discussed in paragraph 7.9.

7.17 The Council's external debt is also forecast to increase over the medium term financial plan as new external borrowing required for OxLEP projects is forecast to exceed the rate at which existing long term debt is repaid upon maturity.

7.18 The Council's external debt is forecast to exceed the CFR in 2015/16. The period for which external debt will exceed CFR will be dependent on the timing of new borrowing for OxLEP projects. There is a likelihood that forward borrowing will be undertaken based on the forecast that interest rates on new debt will increase over the period. However the timing of which will be dependent on the TMST monitoring the situation and determining what is deemed most cost-effective.

Borrowing Instruments

7.19 The TMST's forecast for the period 2015/16 – 2018/19 for 20 and 50 year PWLB rates over the medium term are an average rate of 4.10% and 4.20% per year respectively.

7.20 In November 2012 the PWLB introduced the Certainty Rate which allows eligible Councils to borrow at a discounted rate of 0.20% below the advertised borrowing rate. Eligibility is established by the submission of an annual application form to the Department of Communities and Local Government. The Council has successfully applied and qualified for the rate for the period from 1 November 2014 to 31 October 2015.

7.21 An annual application will be made to renew eligibility for the Certainty Rate, in order to maintain the option should it be required.

7.22 The Council has historically set a maximum limit of 20% of the debt portfolio to be borrowed in the form of Lender's Option Borrower's Option (LOBOs). It is recommended that this remain as the limit for 2015/16. As at 30 November 2014, LOBOs represent 12.49% of the total external debt.

7.23 The Council has five £5m LOBO's with call options in 2015/16. Three of which have two call options in year, whilst two have a single call option. At each call date the lender may choose to exercise their option to change the interest rate payable on the loan. If the lender chooses to do so, the Council will evaluate alternative financing options before deciding whether or not to exercise the borrower's option to repay the loan or to accept the new rate offered. It is likely that if the rate is changed the debt will be repaid.

8. Annual Investment Strategy

8.1 The Council has regard to the Office of the Deputy Prime Minister's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). It also has regard to the subsequent Communities and Local Government update to the Investment Guidance, Capital Finance Regulations and Minimum Revenue Provision Guidance issued in April 2010. The Council's investment priorities are:-

- The security of capital and
- The liquidity of its investments

8.2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

8.3 The Treasury Management Code of Practice requires the Council to approve a Treasury Management Policy Statement. Good practice requires that this statement is regularly reviewed and revised as appropriate. The Treasury Management Policy Statement is included at Appendix E. Cabinet is recommended to recommend Council to approve the Treasury Management Policy Statement.

Investment Instruments

8.4 Investment instruments identified for use in the 2015/16 financial year are set out at Appendices C and D under the 'Specified' and 'Non-Specified' Investment categories.

8.5 Guidance states that specified investments are those requiring "minimal procedural formalities". The placing of cash on deposit with banks and building societies 'awarded high credit ratings by a credit rating agency', the use of AAA rated Money Market Funds (MMFs) and investments with the UK Government and local authorities qualify as falling under this phrase as they form a normal part of day to day treasury management.

8.6 Money market funds (MMFs) will be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the council will also seek to diversify any exposure by using more than one MMF where practical. It should be noted that while exposure will be limited, the use of MMFs does give the council exposure to institutions that may not be included on the approved lending list for direct deposits. This is deemed to be an acceptable risk due to the benefits of diversification. The Treasury team use an online portal to provide details of underlying holdings in MMFs. This enables more effective and regular monitoring of full counterparty risk.

8.7 All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.

8.8 Non specified investment products are those which take on greater risk. They are subject to greater scrutiny and should therefore be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy; this applies regardless of whether they are under one year investments and have high credit ratings.

8.9 A maximum of 50% of the portfolio will be held in non-specified investments.

New Instruments

Secured

8.10 Secured investments are secured on the counterparty's assets. They are exempt from bail-in and will limit the potential for losses in the event of insolvency. Secured investments include reverse repurchase agreements and covered bonds. 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 un-secured investments.

Reverse Repurchase Agreements (Reverse repos)

8.11 A reverse repo is an agreement whereby an investor purchases the legal title to bonds or other investment securities from a bank, with an agreement to sell them back for a higher amount on a future date. The difference between the purchase and sale price representing the investor's return on the investment. The value of the collateral is maintained by the bank at an agreed percentage above the re-sale amount. Reverse repos have a dual benefit for the investor, exemption from bail-in and the retention of the collateral, which can be immediately sold in the case of insolvency.

8.12 On a practical accounting basis reverse repos operate similarly to existing term deposits due to the substance of the agreement. The investment is classed as an asset by the investor, but the collateral remains as an asset on the bank's balance sheet. Subsequently, reverse repos have the potential to be used as an alternative to unsecured term-deposits. It is recommended that the responsibility for determining lending limits based on suitable credit quality for counterparties and collateral, as well as levels of collateral, be delegated to the TMST.

Covered Bonds

8.13 Covered bonds are issued by a bank or building society, and guaranteed by a group company that holds mortgage assets. The process is overseen by a trustee, acting in the best interests of the investors. Covered bonds are exempt from bail-in, but in the event of insolvency the investor has a claim against the counterparty's asset along with unsecured creditors. Any shortfall on the claim is made up by a guarantor, which is a secured creditor of the bank.

Registered Providers

8.14 Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain a high likelihood of receiving government support if needed. It is recommended that the responsibility for determining counterparty limits be delegated to the TMST. This will not fall below the minimum credit rating allowable for term deposits (Fitch: A-).

8.15 On 27 January 2015, Cabinet will be recommended to recommend Council to approve the use of instruments covered in paragraph 8.10 to 8.14.

Credit Quality

8.16 The updated CIPFA Code of Practice on Treasury Management (2011) recommends that Councils have regard to the ratings issued by the three major credit rating agencies (Fitch, Moody's and Standard & Poor's) and to make decisions based on all ratings.

8.17 Whilst the Council will have regard to the ratings provided by all three ratings agencies, the Council uses Fitch ratings as the basis by which to set its minimum credit criteria for deposits and to derive its maximum counterparty limits. Counterparty limits and maturity limits are derived from the credit rating matrix as set out in the tables at paragraphs 8.28 and 8.29 respectively.

8.18 The TMST may further reduce the derived limits due to the ratings provided by Moody's and Standard & Poor's or as a result of monitoring additional indicators such as Credit Default Swap rates, share prices, Ratings Watch & Outlook notices from credit rating agencies and quality Financial Media sources.

8.19 Notification of any rating changes (or ratings watch and outlook notifications) by all three ratings agencies are monitored daily by a member of the Treasury Management Team. Updates are also provided by the Council's Treasury Management advisors Arlingclose and reported to TMST.

8.20 Where a change in the Fitch credit rating places a counterparty on the approved lending list outside the credit matrix (as set out in tables at paragraphs 8.28 and 8.29), that counterparty will be immediately removed from the lending list.

8.21 Where a counterparty has been placed on Negative Watch or Outlook by any of three major credit rating agencies the counterparty's status on the approved lending list will be reviewed by the TMST and appropriate action taken.

8.22 The Authority 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 with the Fitch ratings agency.

Liquidity Management

8.23 The Council has developed a cash flow forecast which is used to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast. The Council uses instant access bank deposit accounts and money market funds for balances forecast to be required at short notice to meet commitments due. Interest rates on some instant access accounts have fallen in 2014/15. The TMST will continue to monitor options available to maintain the required liquidity, and will open new accounts with approved counterparties as appropriate.

Lending Limits

8.24 In addition to the limits determined by the credit quality of institutions, the TMST apply further limits to mitigate risk by diversification. These include:

- Limiting the amount lent to banks in any one country (excluding the UK) to a maximum of 20% of the investment portfolio.

- Limiting the amount lent to any bank, or banks within the same group structure to 10% of the investment portfolio.

8.25 Where the Council has deposits on instant access, this balance may temporarily exceed the 10% bank or group limit. However the limits as set out in paragraphs 8.28 and 8.29 will still apply.

8.26 Counterparty limits as set out in paragraphs 8.28 and 8.29, may be temporarily exceeded by the accrual and application of interest amounts onto accounts such as call accounts and money market funds. Where the application of interest causes the balance with a counterparty to exceed the agreed limits, the balance will be reduced when appropriate, dependent upon the terms and conditions of the account and cashflow forecast.

8.27 Any changes to the approved lending list will be reported to Cabinet as part of the Financial Monitoring and Business Strategy Delivery Report.

8.28 The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2015/16. The TMST may further restrict lending limits dependent upon prevailing market conditions. BBB+ to BBB- ratings has been added for overnight balances with the Council's bank, currently Lloyds Bank Plc. This is for practical purposes should the bank be downgraded in response to the removal of government support.

LENDING LIMITS - Fitch Rating	Short Term Rating	
Long Term Rating	**F1+**	**F1**
AAA	£30m	£20m
AA+	£30m	£20m
AA	£25m	£15m
AA-	£25m	£15m
A+	£20m	£15m
A	£20m	£15m
A-	£15m	£10m
BBB+, BBB, BBB- (bank with which the Council has its bank account)	£20m	£20m

8.29 The Council also manages its counterparty risk by setting maturity limits on deposits, restricting longer term lending to the very highest rated counterparties. The table below sets out the maximum approved limits. The TMST may further restrict lending criteria in response to changing market conditions.

MATURITY LIMITS – Fitch Rating	Short Term Rating	
Long Term Rating	**F1+**	**F1**
AAA	3 years	364 days
AA+	2 years	364 days
AA	2 years	9 months
AA-	2 years	9 months
A+	364 days	9 months
A	9 months	6 months
A-	6 months	3 months
BBB+, BBB, BBB- (bank with which the Council has its bank account)	Overnight	Overnight

<u>Other institutions included on the councils lending list</u>

8.30 In addition to highly credit rated banks and building societies the authority may also place deposits with:-

- AAA rated Money Market funds,
- Collective Investment Schemes
- Local authorities.

Structured Products

8.31 As at 30 November 2014, the Council had £5m of structured products within its investment portfolio. Structured products involve varying degrees of additional risk over fixed rate deposits, with the potential for higher returns. It is recommended that the authority continue to use structured products up to a maximum of 10% of the investment portfolio. The Council will continue to monitor structured products and consider restructuring opportunities as appropriate.

9. External Funds

9.1 As at 30 November 2014, the Council had £61.5m invested in external funds (excluding MMFs). These funds have a variable net asset value which means that the value of the funds can decrease as well as increase depending on the performance of the instruments in the fund.

9.2 The Council uses external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three year period. The Council will have no more than 50% of the total portfolio (currently around £150m) invested with external fund managers and pooled funds (excluding MMFs). This allows the Council to achieve diversification while limiting the exposure to funds with a variable net asset value.

9.3 In order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.

9.4 The performance of the pooled funds is monitored by the TMST throughout the year against the funds' benchmarks and the in-house investment returns.

9.5 The TMST will keep the external fund investments under review and consider alternative instruments and fund structures, to manage overall portfolio risk. It is recommended that authority to withdraw, or advance additional funds to/from external fund managers, continue to be delegated to the TMST.

10. Investment Approach

10.1 Given the increasing risk for short-term bank and building society deposits as a result of the Bank Recovery and Resolution Directive, the Authority aims to diversify into more secure asset classes during 2015/16.

10.2 The weighted average maturity (WAM) of in-house deposits as at 30 November 2014 was 177 days. This is made up of £35.9m of instant access balances with a maturity of 1 day, and £288m of deposits with a WAM of 199 days.

10.3 The in-house WAM has decreased from 283 days, reported on 30 November 2013. The shorter WAM is in part a result of a reduction in durations for bank and building society limits on the Council's lending list. The shorter WAM will however provide a greater degree of flexibility in securing investment returns in an interest rate environment that is forecast to move upward. This signals a move away from the need to lock in to long term investment returns in an environment of falling or stagnating interest rates.

10.4 With the prospect of a rise in interest rates, the TMST will aim to maintain the balance between longer-term deposits with local authorities and short-term secured and unsecured deposits with high credit quality financial institutions. Money Market Funds will continue to be utilised for instant access cash. This approach will maintain a degree of certainty about the investment returns for a proportion of the portfolio, as well while also enabling the Treasury Management team to respond to any increases in interest rates in the short-term.

10.5 The Council maintain the option to invest directly in UK Government Gilts, T-bills, Certificates of Deposits and other Sovereign Bonds, use of such instruments remains dependent upon custody arrangements. If availability of acceptable credit worthy institutions is reduced, the Council may use the Debt Management Office Deposit Facility and will continue to prioritise security and liquidity of assets over investment returns.

10.6 Given the on-going upheaval in the banking sector, it is proposed that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy, continue to be delegated to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance.

11. Policy on Use of Financial Derivatives

11.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code (2011) requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

11.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

11.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

11.4 It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2015/16. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

12. Performance Monitoring

12.1 The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.

12.2 Arlingclose benchmark the performance of their clients against each other on a quarterly basis, looking at a variety of indicators including investment risk and returns.

12.3 The Council will benchmark its internal return against 3 month LIBID.

12.4 Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2014/15, and the Treasury Management Mid-Term Review 2015/16, which will be considered in July and November 2015 respectively.

13. Investment Training

13.1 All members of the Treasury Management Strategy Team are members of a professional accounting body. In addition, key Treasury Management officers receive in-house and externally provided training as deemed appropriate and training needs are regularly reviewed, including as part of the staff appraisal process.

14. Treasury Management Advisors

14.1 Arlingclose continue to provide the Council's Treasury Management Advisory Service, following the award of a three year contract via a competitive procurement process in May 2013. Under the contract the Council will receive specific advice on investment, debt and capital finance issues.

15. Recommendations

When the report is considered by Cabinet on 27 January it will be recommended to recommend to Council to:

a) **Approve the Prudential Indicators for 2015/16, 2016/17 and 2017/18 as set out in Appendix A;**

b) Approve the Minimum Revenue Provision Policy for 2015/16 as set out in Appendix B;

c) Approve the Treasury Management Strategy Statement & Annual Investment Strategy 2015/16;

d) Approve the use of new instruments;

e) Continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the TMST;

f) Approve the continued delegation of changes required to the Annual Treasury Management Strategy Statement & Annual Investment Strategy to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance;

g) Approve the Draft Treasury Management Policy Statement as set out at Appendix E.

Appendix A

Prudential Indicators 2015/16, 2016/17 and 2017/18

i. Gross Debt and the Capital Financing Requirement

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

i.ii. The Chief Finance Officer reports that the Council’s level of gross debt exceeded the CFR in 2013/14 and maintains a likelihood of doing so over the medium term. The reasons for this are set out in paragraphs 7.15 to 7.18 of the Treasury Management Strategy. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Debt	31.03.15 Revised £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
External Borrowing	tbd	tbd	tbd	tbd
Long Term Liabilities	tbd	tbd	tbd	tbd
Total Debt	tbd	tbd	tbd	tbd

ii. Estimates of Capital Expenditure

ii.i. The Council is required to make reasonable estimates of the total of capital expenditure that it plans to incur during 2015/16 and the following two financial years. The Council must also approve the actual expenditure for 2013/14 and revised expenditure for 2014/15.

	2013/14 Actual £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital Expenditure	67.201	tbd	tbd	tbd	tbd

	Actual	Estimates			
	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
SCE(R) Supported Borrowing	0.000	tbd	tbd	tbd	tbd
Prudential Borrowing	1.221				
Grants and Contributions	58.771				
Capital Receipts	0.000				
Revenue	7.209				
Reserves	0.000				
	67.201				

ii.ii. The indicators have been based on the February 2015 capital programme which will be considered for approval by Council on 17 February 2015 with the Service & Resource Planning Report.

ii.iii. The capital expenditure figures for beyond 2015/16 will be able to be revised in twelve months' time.

iii. The Ratio of Financing Costs to the Net Revenue Stream

iii.i. 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.

Year	Actual/ Estimate	Financing Cost £m	Net Revenue Stream £m	Ratio %
2013/14	Actual	tbd	tbd	tbd
2014/15	Estimate	tbd	tbd	tbd
2015/16	Estimate	tbd	tbd	tbd
2016/17	Estimate	tbd	tbd	tbd
2017/18	Estimate	tbd	tbd	tbd

iii.ii. Financing costs include interest payable on borrowing, interest and investment income and the amount required for the minimum revenue provision.

iv. The Capital Financing Requirement

iv.i Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2014 that are recommended for approval are:

Year	Actual/Estimate	£m
2013/14	Actual	422.895
2014/15	Estimate	tbd
2015/16	Estimate	tbd
2016/17	Estimate	tbd
2017/18	Estimate	tbd

iv.ii The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice the County Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows 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. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

v. The Incremental Impact of Capital Investment Decisions

v.i. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. 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.

v.ii. The estimate of the incremental impact of capital investment decisions proposed in the Capital Programme, over and above capital investment decisions that have previously been taken by the Council are, for the Band D Council Tax:

Year	Actual/Estimate	£
2015/16	Estimate	tbd
2016/17	Estimate	tbd
2017/18	Estimate	tbd

vi. Authorised Limit and Operational Boundary for External Debt

vi.i. The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

vi.ii. The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt 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 Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

vi.iii. 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).

vi.iv. The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

vi.v. The Operational Boundary links directly to the Authority'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.

	2014/15 probable outturn	**2015/16 estimate**	**2016/17 estimate**	**2017/18 estimate**
	£m	**£m**	**£m**	**£m**
Operational Boundary for external debt -				
Borrowing	434.0	tbd	tbd	tbd
other long term liabilities	40.0	tbd	tbd	tbd
TOTAL	**474.0**	**tbd**	**tbd**	**tbd**
Authorised Limit for external debt -				
Borrowing	444.0	tbd	tbd	tbd
other long term liabilities	40.0	tbd	tbd	tbd
TOTAL	**484.0**	**tbd**	**tbd**	**tbd**

vii. Actual External Debt

vii.i This indicator enables the comparison of Actual External Debt at year end to the Operational Boundary and Authorised Limit.

Total External Debt as at 31.03.14	**£m**
External Borrowing	401.383
Financing Liability	26.500
Total	**427.883**

viii. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice

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

viii.ii The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting of Full Council on 1 April 2003.

ix. Gross and net debt

ix.i This indicator is intended to identify where an authority may be borrowing in advance of need.

Upper Limit of net debt:

	2014/15	**2015/16**	**2016/17**	**2017/18**
Net Debt / Gross Debt	70%	70%	70%	70%

x. Upper and lower limits to maturity structure of fixed rate borrowing

x.i. 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.

x.ii. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

x.iii. LOBOs are classified as maturing on the next call date, this being the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing during 2015/16	Lower Limit %	Upper Limit %
Under 12 months	0	20
12 months and within 24 months	0	25
24 months and within 5 years	0	35
5 years and within 10 years	5	40
10 years and above	50	95

xi. Upper limits on fixed and variable rate interest exposures

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

Upper limit for fixed interest rate exposure:

	2014/15	2015/16	2016/17	2017/18
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%

xi.ii The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

Upper limit for variable rate exposure:

	2014/15	2015/16	2016/17	2017/18
Net principal re variable rate borrowing / investments	25%	25%	25%	25%

xii. Upper limit to total of principal sums invested longer than 364 days

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

xii.ii It is proposed that the limit remain at £150m in 2015/16 to reflect the size of the cash portfolio and to continue to offer flexibility in the investment strategy. The average in-house cash balance for 2013/14 was just under £350m.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Upper limit on principal sums invested longer than 364 days	150	150	150	150

Appendix B

Minimum Revenue Provision Policy Statement for 2015/16

Introduction

1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

2. Until 2007/08, the basis of the calculation for the MRP was specified in legislation. Legislation (Statutory Instrument 2008 no. 414 s4) which came into force on 31 March 2008, gives local authorities more freedom to determine what a prudent level of MRP is.

3. The new legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

4. The implementation of the International Financial Reporting Standards (IFRS) requirements brought some service concession arrangements on balance sheet and resulted in some leases being reclassified as finance leases instead of operating leases. Part of the service charge or rent payable is taken to reduce the balance sheet liability rather than being charged to revenue accounts. To ensure that this does not result in a one-off increase in the capital financing requirement and in revenue account balances, an amount equal to the amount that has been taken to the balance sheet is included in the annual MRP charge.

Options for Prudent Provision

5. Guidance on the legislation sets out a number of options for making ‘prudent provision’. Options 1 and 2 relate to Government supported borrowing. Options 3 and 4 relate to new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed. Authorities are able to use any of the four options for MRP. The options are explained below.

Option 1 - Regulatory Method

6. This is the current method, and for debt supported by Revenue Support Grant (RSG), authorities can choose to continue to use the formula. This is calculated as 4% of the council’s general fund capital financing requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

Option 2 – Capital Financing Requirement (CFR) Method

7. Option 2 differs from Option 1 only in that the smoothing factors are removed. This is a simpler calculation; however for most authorities including Oxfordshire, it would result in a higher level of provision than Option 1.

Option 3 – Asset Life Method

8. For new borrowing under the Prudential system, Option 3 is to make provision in equal instalments over the estimated life of the asset for which the borrowing is undertaken or the alternative is the annuity method which has the advantage of linking MRP the flow of benefits from an asset where the benefits are expected to increase in later years. As with the existing scheme of MRP, provision for the debt will normally commence in the financial year following the one in which the expenditure is incurred. There is however one exception to this rule under Option 3. In the case of the construction of a new building or infrastructure, MRP would not have to be charged until the new asset came into service. The MRP 'holiday' would perhaps be two or three years in the case of major projects and could make them more affordable.

Option 4 – Depreciation Method

9. For new borrowing under the Prudential system, Option 4 is to make MRP in accordance with the standard rules for depreciation accounting.

MRP Methodology Statement

10. The policy already in place in the Council is reflected in Options 1 and 3; consequently the statement requiring approval by Council is a confirmation of existing practice and continuation of the policy approved by Council in June 2008. The Council is recommended therefore to approve the following statement:

11. For capital expenditure incurred before 1 April 2008 or which in the future will relate to Supported Capital Expenditure, the MRP policy will be based on existing regulations (Option 1 – Regulatory Method).

12. From 1 April 2008, for all unsupported borrowing, the MRP policy will be based on the estimated life of the assets for which the borrowing is undertaken (Option 3 – Asset Life Method or Annuity Method).

13. In the case of finance leases and on-balance sheet Private Finance Initiative (PFI) type contracts, the MRP requirement will be regarded as being met by a charge equal to the element of the rent/charge that goes to write-down the balance sheet liability, including the retrospective element in the first year (Option 3 in modified form).

14. The major proportion of the MRP for 2015/16 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance

with Option 1 of the guidance. Certain expenditure reflected within the debt liability at 31 March 2015 will be subject to MRP under Option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Appendix C

Specified Investments

Investment Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – Banks and Building Societies	Fitch short-term F1, Long-term BBB-, Minimum Sovereign Rating AA+	In-house and Fund Managers
Term Deposits with Nationalised Banks with Government Guarantee for wholesale deposits	N/A	In-house
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis and Fund Managers
Money Market Funds with a Constant Net Asset Value	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes[4]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	AAA	In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Counterparty Rating: Fitch short-term F1, Long-term A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	A-	In-house and Fund Managers

[4] I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix D

Non-Specified Investments

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Debt Management Agency Deposit Facility (maturities in excess of 1 year)[5]	N/A	In-house and Fund Managers	50%	3 years
Term Deposits – UK Government (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
UK Government Gilts with maturities in excess of 1 year	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral development banks	AAA	In-house on a buy and hold basis and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers

[5] Debt Management Agency Deposit Facility currently limit deposits to 6 months. The ability to deposit in excess of 1 year is retained if such deposits become available.

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Bonds issued by a financial institution which is guaranteed by the UK Government	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Supranationals	N/A	In-house. Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers
Money Market Funds and Collective Investment Schemes[6] but which are not credit rated	N/A	In-house and Fund Managers	50% In-house; 100% External Funds	Pooled Funds do not have a defined maturity date
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Determined by TMST	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	3 years, 10 years fund managers
Covered Bonds	A-	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	3 years, 10 years fund managers
Registered Providers	A-	In-house	50% In-house	3 years

The maximum limits for in-house investments apply at the time of arrangement.

[6] Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix E

OXFORDSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1. Oxfordshire County Council defines its treasury management activities as:

   "The management of the organisation's 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."

2. Oxfordshire County Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. Oxfordshire County Council acknowledges that effective treasury management will provide support towards achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.

4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

6. The manner in which Oxfordshire County Council will seek to achieve these objectives and the arrangements for managing and controlling treasury management activities is prescribed in the treasury management practices which support this policy statement.

7. Responsibility for the implementation and monitoring of the Council's treasury management policies and practices are vested in the Council. The officer responsible for the execution and administration of treasury management decisions is the Chief Finance Officer, who will act in accordance with this Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

8. The Council nominates the Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

9. Council will receive reports on treasury management policies, practices and activities including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.