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AUDIT COMMITTEE – 10 JANUARY 2014

TREASURY MANAGEMENT STRATEGY REPORT 2014/15

1. INTRODUCTION

The Prudential Code for Capital Finance in Local Authorities (The Code) was introduced with effect from 1 April 2004. The Code gives the Council greater freedom for future capital investment plans but requires it to set and monitor prudential indicators to ensure that its plans are affordable and sustainable.

This report outlines and recommends the Council's prudential indicators for 2014/15 – 2016/17 that relate to the Treasury Management Function and sets out the expected treasury operations for this period.

A further report detailing the prudential indicators for 2014/15 – 2016/17 relating to Capital Expenditure will be included in a report to Cabinet on 5 February 2014 for approval.

2. POLICIES AND APPROVALS REQUIRED

2.1 Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three year period from 2014/15 to 2016/17. The day to day treasury management function and the limitations on activity through treasury prudential indicators are also set out in the statement.

There are a number of target indicators but the indicator that must not be breached is the **Authorised Limit for External Debt**. This is the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term.

This report has been prepared prior to the finalisation of the Capital Programme for 2014/15 and subsequent years. Therefore the Prudential Indicators may be subject to minor variation. Should any increase result in the likelihood of the approved **Authorised Limit for External Debt** being breached this will be reported at Cabinet in February. Other indicators are targets only and minor adjustments will not be reported.

2.2 Investment Strategy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

The investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

This strategy is shown in Annex A in Section 6.

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

The Investment Strategy will take effect immediately on approval of this report by Council on 24 February 2014.

3. ENVIRONMENTAL IMPLICATIONS

3.1 There are no environmental implications arising from this report.

4. CRIME AND DISORDER IMPLICATIONS

4.1 There are no crime and disorder implications arising from this report.

5. RECOMMENDATIONS

The Audit Committee is recommended to request Council to approve the key element of this report with immediate effect:

5.1 The Treasury Management Strategy 2014/15 to 2016/17, and the Treasury Prudential Indicators contained within Annex A.

Further Information
Please contact Jan Hawker, Treasury Management Accountant Ext. 284444
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Background Papers
The Prudential Code, CIPFA Guidance Notes and CLG Investment Guidance.
General Fund Revenue Budget and Capital Programme 2014/15 (Cabinet 5 February 2014)

g/word/treasury performance reports/treasury management strategy report 201415

ANNEX A

TREASURY MANAGEMENT STRATEGY 2014/15 – 2016/17

1. INTRODUCTION

1.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators in this Annex consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are specific treasury prudential indicators included in this strategy that need approval. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

1.2 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). This Council has adopted the Code and consequently a Treasury Management Policy Statement on 25 February 2002. These adoptions are a requirement of one of the prudential indicators.

1.3 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Code of Practice on Treasury Management for Public Services. The Council's investment priorities will be security first, liquidity second, then return.

1.4 The policy requires an annual strategy to be reported to 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 mid-year monitoring report and a year-end report on actual activity for the year are also required.

1.5 As part of the Council's Service Review programme the Executive Director (Finance) and Accountancy Manager have undertaken a review of Treasury Management Services. This review has led to the development and consideration of a Service Level Agreement for the provision of Hampshire County Council's Treasury Management Services to support the Council's activities.

1.6 Subject to finalisation of the Service Level Agreement this operation will commence in 2014.

1.7 In light of this development the revised strategy for 2013/14, approved at Cabinet in December, and the strategy for 2014/15 in this report have been aligned with the Treasury Management Strategy of Hampshire County Council.

2. DEBT AND INVESTMENT PROJECTIONS

2.1 External Borrowing and Investment

The expected impact of the capital expenditure decisions on the Council's gross debt and investment position are shown below, including changes in borrowing and the net use of capital receipts, developers' contributions and capital reserves:

	2013/14 Revised £m	2014/15 Estimated £m	2015/16 Estimated £m	2016/17 Estimated £m
External Debt				
Total Gross Debt at 31 March	142.7	145.9	145.9	145.9
Expected change in debt	0.0	3.2	0.0	0.0
Investments				
Total Gross Investments at 31 March	(28.4)	(25.3)	(24.4)	(24.3)
Expected change in Investments		3.1	0.9	0.1
Net Borrowing	**114.3**	**120.8**	**121.7**	**121.8**

3 LIMITS TO BORROWING ACTIVITY

3.1 Borrowing Requirement

The borrowing requirement for the year is the expected movement in the CFR. The expected movement in the CFR for NFDC represents the funding of capital expenditure by "borrowing" from internal funds and actual borrowing both in respect of the HRA settlement and the GF.

The Council needs to make sure that external borrowing in 2014/15 does not exceed the total of the CFR at the end of 2014/15 and the two subsequent years. This allows some flexibility for limited borrowing in advance of the need to spend but assures that borrowing is not undertaken for revenue purposes.

Borrowing	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Gross Borrowing	142.7	145.9	145.9	145.9
CFR at year end	148.6	152.0	152.0	151.7
Safety Margin for Limit of Capital Expenditure to be Financed from Loan	**(5.9)**	**(6.1)**	**(6.1)**	**(5.8)**

As the estimated balance of external borrowing of £145.9 million in 2014/15 does not exceed the CFR in any year up to 2016/17 this indicator is satisfied. This takes into account current commitments, existing plans and the proposals in the budget report.

3.2 The Operational Boundary for External Debt

This is the limit beyond which external borrowing is not **normally** expected to exceed. It is anticipated that new debt will be raised in 2014/15 of £3.2m for the Lymington Harbour Commissioners and short-term temporary debt to cover cash flow requirements.

Operational limit for external debt	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Temporary Borrowing	0	0	0	0
Long - Term Borrowing	143	146	146	146
Total Borrowing Limit	**143**	**146**	**146**	**146**

3.3 The Authorised Limit for External Debt

This is the limit beyond which borrowing is **prohibited** and needs to be set by Members for each financial year. It reflects the level of borrowing that, while not desired or sustainable, could be required in the short-term. It is the maximum external borrowing required with some headroom for unexpected cash flow movements and includes both temporary borrowing for cash flow purposes and long term borrowing to finance capital expenditure and the HRA settlement.

Authorised limit for external debt	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Temporary Borrowing	30	33	37	40
Long - Term Borrowing	143	146	146	146
Total Borrowing Limit	**173**	**179**	**183**	**186**

3.4 The Maximum HRA Debt Limit

The Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The Council may not borrow more than this limit for HRA purposes.

This limit is dictated by the DCLG and is based on the amount of the settlement payment of £142.7m plus the old Housing Subsidy Notional Debt amount of £12.8m. The Council is not currently planning to increase HRA borrowing and therefore actual total borrowing, for the HRA, will remain at £142.7m

HRA Debt Limit	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Total	155.5	155.5	155.5	155.5

4. EXPECTED MOVEMENT IN INTEREST RATES

4.1 Medium-Term Rate Forecasts

The following table outlines the central view of the Council's treasury consultants at the end of each financial year.

Year	Base Rate	Money Market Rate			PWLB Borrowing Rate		
	%	3 Month %	6 Month %	1 Year %	5 year %	10-year %	25-year %
2013/14	0.50	0.50	0.60	0.80	2.50	3.60	4.40
2014/15	0.50	0.50	0.60	0.80	2.80	3.90	4.60
2015/16	0.50	0.50	0.70	1.40	3.10	4.20	5.00
2016/17	1.25	1.30	1.40	2.30	3.40	4.50	5.10

4.2 Bank Base Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 2 of 2016 despite inflation remaining above the Monetary Policy Committee inflation target currently.

4.3 Growth is unlikely to increase significantly and an export led recovery appears unlikely due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market.

4.4 Fixed interest borrowing rates are based on UK gilt yields. It is likely that the trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

5. BORROWING AND DEBT STRATEGY 2014/15 – 2016/17

5.1 The Council's current strategy is not to be fully funded with loan debt as cash from the Council's reserves and cash flows are used as a temporary measure to support a level of deferred expenditure (mainly Council vehicles). This strategy is prudent as investment returns are low and counterparty risk is high currently.

5.2 Against the economic background, and the risks within the UK Government's economic forecast, caution will continue to be adopted with the 2014/15 treasury operations. The uncertainty over the timing of future interest rates movements increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its borrowing strategy. The Executive Director will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Although the borrowing requirement is detailed by year it is not certain that any General Fund loans will be raised in the immediate future.

5.3 The Executive Director, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time. This may include borrowing in advance for future years requirements if it is prudent to do so. However, any risks associated with borrowing in advance will not be purely in order to profit and will be subject to prior appraisal and subsequent reporting through the regular mid-year or annual reports.

5.4 Sources of Borrowing

In conjunction with advice from its treasury advisor the Council will keep under review the following borrowing sources:

- Internal
- Public Works Loan Board (PWLB)
- Local authorities
- European Investment Bank
- Leasing
- Structured finance
- Capital markets (stock issues, commercial paper and bills)
- Commercial banks.

5.5 Debt Rescheduling

The Council's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise.

The rationale for undertaking any debt rescheduling or repayment would be one or more of the following:

- Reduce investment balances and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio.

Borrowing and rescheduling activity will be reported to the Audit Committee in the Annual Treasury Management Report or the treasury management monitoring report.

6. INVESTMENT STRATEGY 2014/15 – 2016/17

6.1 In accordance with Investment Guidance issued by the CLG and best practice the Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments is secondary, followed by the yield earned on investments which is a tertiary consideration.

6.2 The Council and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Council.

6.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Council and are not deemed capital expenditure investments under Statute. Non-specified investments are, effectively, everything else.

6.4 The types of investments that could be used by the Council and whether they are specified or non-specified are shown in the table below, further details can be found in Annexes A3 & A4:

Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Council Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
Short-Term Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓
Organisations that meet an external credit assessment and advice from the Council's Treasury Management Advisor.	✓	✓
Debt Management Account Deposit Facility	✓	×

6.5 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent).

6.6 Any institution will be suspended or removed should any of the factors identified above give rise to concern. The institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in Annex A3.

6.7 When determining with which counterparties to invest the Executive Director will have delegated authority to add counterparties to the approved list should they meet the approved credit requirements, and to change the counterparty limit as necessary, with any changes being reported back to members retrospectively.

6.8 The Council banks with the Co-operative Bank. At the current time it does not meet the Council's minimum credit criteria. As its credit rating is below the minimum criteria the position will be monitored to ensure the risk to Council funds is minimised. As the Council's banker the Co-operative Bank may continue to be used for short term liquidity requirements (credit and overdrawn balances) and business continuity arrangements.

6.9 Investment Strategy

With short term interest rates low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

In order to diversify a portfolio invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

The Investment Strategy will provide the flexibility to invest cash for a maximum period of up to two years in order to access higher investment returns in the current low interest rate environment, although lending to UK local authorities and other public sector bodies can be for up to three years. Within this Strategy the duration of actual investments will be determined by the perceived credit risk. For example new investment deposits with banks and building societies could be restricted based on the assessment of the individual counterparties' credit risk, with lending to some counterparties prohibited completely from time to time.

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 mitigate operational risk by utilising at least two MMFs. The Council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of an individual MMF's net asset value.

6.10 Risk Benchmarking

Requirements in the Code are the consideration and approval of risk benchmarks.

Security risk is of major importance and is covered in detail in paragraph 12 of this report.

Yield benchmarks are already widely used to assess investment performance. Liquidity is also reported to Members. Yield benchmarking is factual whereas the application of liquidity benchmarking is subjective in nature. Additional background in the approach taken is attached at Annex A2.

These benchmarks are targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Reports.

6.10.1 Liquidity

In respect of this area in 2014/15 the Council seeks to maintain:

- Bank overdraft - £0.75m

6.10.2 Yield

Local measures of yield benchmarks are:

- Investments – returns above the 7 day LIBID rate

7. SENSITIVITY TO INTEREST RATE MOVEMENTS

7.1 Future Council accounts will be 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 not quantified. The table below highlights the estimated impact of a 0.5% increase/decrease in all interest rates to treasury management costs/income for 2014/15.

Revenue Budgets	2014/15 Estimated @ 0.62% £000	2014/15 Estimated @ 1.12% (0.62% + 0.5%) £000	2014/15 Estimated @ 0.12% (0.62% - 0.5%) £000
Interest on Long-Term Borrowing	-4,368	-4,368	-4,368
Interest on Internal Borrowing	22	40	0
Investment income	240	434	46

It should be noted that current long term borrowing has fixed rates of interest and therefore, should interest rates fall or rise, the actual interest payable will remain unchanged.

8. TREASURY MANAGEMENT LIMITS ON ACTIVITY

8.1 Treasury Management Prudential Indicators and Limits on Activity.

The purpose of this prudential indicator is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if the limits are set at a level that is too restrictive they could limit opportunities to reduce costs.

The revised prudential indicator in the table below shows that up to 100% of investments can be placed in either fixed or variable deposits in the short term and that a restriction of £10m is placed on investments of over 12 months.

Investments	2014/15 Upper		2015/16 Upper		2016/17 Upper	
Estimated Maximum sums invested	£67m		£64m		£63m	
Estimated Maximum sums invested for more than 1 year	£10m		£10m		£10m	
Limits - fixed interest rates	100%		100%		100%	
Limits - variable interest rates	100%		100%		100%	
Maturity Structure of investments						
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	100%	0%	100%	0%	100%
Over 12 and up to 24 months	£0m	£10m	£0m	£10m	£0m	£10m

8.2 The indicators for borrowing are shown in the following table:

The table below shows that up to 100% of fixed rate borrowing can be raised in periods of 10 years or more. A 25% limit has been set for shorter periods.

Borrowing	2014/15 Upper		2015/16 Upper		2016/17 Upper	
Estimated Maximum Principal sums borrowed	£180m		£184m		£187m	
Limits - fixed interest rates	100%		100%		100%	
Limits - variable interest rates	50%		50%		50%	
Maturity Structure of fixed interest rate borrowing						
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	25%	0%	25%	0%	25%
12 months to 2 years	0%	25%	0%	25%	0%	25%
2 years to 5 years	0%	25%	0%	25%	0%	25%
5 years to 10 years	0%	25%	0%	25%	0%	25%
10 years and above	0%	100%	0%	100%	0%	100%

9. POLICY ON THE USE OF FINANCIAL DERIVATIVES

9.1 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. 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 requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

9.2 The Council currently has not used and has no plans to make use of financial derivatives. Should this change derivatives will only be used after seeking expert advice, a legal opinion and ensuring officers have the appropriate training for their use.

9.3 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.

10. MONITORING AND REPORTING ON THE TREASURY OUTTURN AND PRUDENTIAL INDICATORS

Treasury activity is monitored quarterly and reported internally to the Executive Director of Finance. The Prudential Indicators will be monitored through the year by the Executive Director of Finance and reported as set out below. The Executive Director of Finance will report to the Audit Committee on treasury management activity / performance and Prudential Indicators as follows:

- A mid-year and year end review of treasury activity against the strategy approved for the year.

- The Council will produce an outturn report on its treasury activity no later than 30 September after the financial year end.

- The Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

11. TRAINING

CIPFA's Code of Practice requires a responsible officer, which is the Executive Director of Finance, to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. The training needs of the Council's treasury management staff are subject to regular review.

12. CREDIT RISK

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

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

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

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);

- Sovereign support mechanisms;

- Credit default swaps (where quoted);

- Share prices (where available);

- Economic fundamentals, such as a country's net debt as a percentage of its GDP;

- Corporate developments, news, articles, markets sentiment and momentum;

- Subjective overlay.

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

13. PERFORMANCE INDICATORS

The Code of Practice for 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. An example of performance indicators often used for the treasury function is:

- Investments – returns should be above the average 7 day LIBID rate

The result of this indicator will be reported in the Annual Treasury Report at each year-end.

14. TREASURY MANAGEMENT CONSULTANTS

The Executive Director of Finance uses external treasury advisers for information, advice and assistance relating to borrowing and investment.

Annex A1

TREASURY MANAGEMENT PRACTICE (TMP)1 – Credit and Counterparty Risk Management

1. The Office of the Deputy Prime Minister (now CLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below.

2. The key intention of the investment guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield.

3. In order to meet this objective the guidance requires this Council to have regard to the CLG's guidance on Local Government Investments and the 2011 revised CIPFA Treasury Managements in Public Services Code of Practice and Cross Sectoral Guidance Notes and includes the Statement of Treasury Management Practices.

4. This Council adopted the Code on 25 February 2002 and will apply its principles to all investment activity. In accordance with the Prudential Code, this part of the approved treasury management practices must be agreed prior to each financial year and amended if necessary.

5. Annual Investment Strategy

5.1 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 year, covering the identification and approval of the following:

- The strategy guidelines for decision making on investment decisions.

- Specified investments that the Council will use. - These are highly credit rated and highly liquid investments in sterling and with a maturity of no more than a year.

- Non-specified investments that the Council will use. -This identifies the greater risk implications of investments that are not so highly credit rated or are for a longer duration. It specifies the limits for which investments may be made with each counterparty at any time.

5.2 The investment strategy proposed for the Council is as set out in paragraph 6 of Annex A, and Annex A3 and A4.

Annex A2

SECURITY, LIQUIDITY AND YIELD BENCHMARKING

1. Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service

Members should consider and approve security and liquidity benchmarks. These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

1.1 Yield

These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are shown at paragraph 6.10.2 in the Treasury Management Strategy at Annex A:

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators.

1.2 Liquidity

This is defined as "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 objectives" (CIPFA Treasury Management Code of Practice).

In this respect the proposed benchmark is shown at paragraph 6.10.1 in the Treasury Management Strategy at Annex A

1.3 Security of the investments

In the context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors).

Minimum credit quality is embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report.

Annex A3

Recommended Sovereign and Counterparty List 2014/15

Country/ Domicile	Counterparty	Maximum Counter-party Limit 2014/15 £m	Maximum Maturity Limit
UK	Barclays Bank Plc	5	2 years
UK	Close Brothers Bank	5	2 years
UK	Goldman Sachs International Bank	5	2 years
UK	HSBC Bank Plc	5	2 years
UK	Leeds Building Society	5	2 years
UK	Lloyds TSB (Lloyds Banking Group)	5	2 years
UK	Nationwide Building Society	5	2 years
UK	NatWest (RBS Group)	5	2 years
UK	Santander UK Plc (Banco Santander Group)	5	2 years
UK	Standard Chartered Bank	5	2 years
Australia	Australia and NZ Banking Group	5	2 years
Australia	Commonwealth Bank of Australia	5	2 years
Australia	National Australia Bank Ltd (National Australia Bank Group)	5	2 years
Australia	Westpac Banking Corp	5	2 years
Canada	Bank of Montreal	5	2 years
Canada	Bank of Nova Scotia	5	2 years
Canada	Canadian Imperial Bank of Commerce	5	2 years
Canada	Royal Bank of Canada	5	2 years

Country/ Domicile	Counterparty	Maximum Counter-party Limit 2014/15 £m	Maximum Maturity Limit
Canada	Toronto-Dominion Bank	5	2 years
Finland	Nordea Bank Finland	5	2 years
Finland	Pohjola	5	2 years
France	BNP Paribas	5	2 years
France	Credit Agricole CIB (Credit Agricole Group)	5	2 years
France	Credit Agricole SA (Credit Agricole Group)	5	2 years
France	Société Générale	5	2 years
Germany	Deutsche Bank AG	5	2 years
Germany	Landesbank Hessen-Thuringen (Heleba)	5	2 years
Netherlands	ING Bank NV	5	2 years
Netherlands	Rabobank	5	2 years
Netherlands	Bank Nederlandse Gemeenten	5	2 years
Singapore	DBS Bank Ltd	5	2 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	5	2 years
Singapore	United Overseas Bank (UOB)	5	2 years
Sweden	Svenska Handelsbanken	5	2 years
Switzerland	Credit Suisse	5	2 years
US	JP Morgan	5	2 years

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools or a new suitable counterparty comes into the market. Alternatively, if a counterparty is downgraded, this list may be shortened.

Annex A4

Non-Specified Investments

Instrument	Maximum maturity	Max % of the portfolio
Term deposits with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	100
Term deposits with local authorities (maximum of £4m per authority)	3 years	100
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	100
Deposits with registered providers	3 years	10
Gilts	3 years	25
Bonds issued by multilateral development banks	3 years	25
Sterling denominated bonds by non-UK sovereign governments	3 years	10
Money Market Funds and Collective Investment Schemes (maximum of £10m per fund)	2 years	50
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	2 years	10