TREASURY MANAGEMENT STRATEGY 2013/14

Performance and Governance Committee – 8 January 2013

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Status:	For Decision
Also considered by:	Finance Advisory Group - 23 January 2013 Cabinet - 7 February 2013 Council - 19 February 2013
Key Decision:	No

Executive Summary: The Local Government Act 2003 (the Act) and supporting regulations requires 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.

The Act therefore 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). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Members' particular attention is drawn to paragraphs 57-59 of the report, which deal with changes to the investment criteria in the light of recent credit rating downgrades.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager – Financial Services – Mr Adrian Rowbotham

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Recommendation to Performance and Governance Committee:

That consideration is given to amending the 'other creditworthiness criteria' in line with those set out in paragraphs 57-59 of this report.

Recommendation to Finance Advisory Group:

That consideration is given to amending the 'other creditworthiness criteria' in line with those set out in paragraphs 57-59 of this report.

Recommendation to Cabinet:

That, subject to the views of the Finance Advisory Group and Performance and Governance Committee, Cabinet recommends Council to approve the Treasury Management Strategy Statement set out in this report.

Reason for recommendations: To ensure that an appropriate and effective annual Treasury Management Strategy is drawn up in advance of the forthcoming financial year, which meets both legislative and best practice requirements.

Background

1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3. CIPFA defines treasury management 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. "

Introduction

<u>Reporting requirements</u>

4. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Finance Advisory Group and the Performance and Governance Committee.

5. Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:

   - the capital plans (including prudential indicators);

- a Minimum Revenue Provision Policy (MRP) (how residual capital expenditure is charged to revenue over time);

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- an investment strategy (the parameters on how investments are to be managed).

6. A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

7. An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2013/14

8. The strategy for 2013/14 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;

- the minimum revenue provision (MRP) strategy.

Treasury management Issues

- the current treasury position;

- treasury indicators which will limit the treasury risk and activities of the Council;

- prospects for interest rates;

- the borrowing strategy;

- the investment strategy; and

- creditworthiness policy.

9. These elements cover the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, the Department of Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Training

10. The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Training was last undertaken in 2010 and further training will be arranged as required.

11. The training needs of treasury management officers are reviewed periodically.

Treasury management consultants

12. The Council uses Sector Treasury Services Limited (Sector) as its external treasury management advisors.

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

14. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and subjected to review.

Capital Issues

The Capital Prudential Indicators 2013/14 – 2015/16

15. The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

16. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Expenditure	2,348	1,423	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

17. Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

18. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Expenditure	2,348	1,423	***	***	***
Financed by:					
Capital receipts	119	197	***	***	***
Capital grants	1,085	396	***	***	***
Capital reserves	330	330	***	***	***
Revenue	814	500	***	***	***
Net financing need for the year	**2,348**	**1,423**	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

The Council's Borrowing Need (the Capital Financing Requirement)

19. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

20. The CFR does not increase indefinitely, as the minimum revenue position (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

21. The CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.2m of such schemes within the CFR.

22. The Council is asked to approve the CFR projections below:

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000

Capital Financing Requirement					
Total CFR	185	164	143	122	101
Movement in CFR	-21	-21	-21	-21	-21

Movement in CFR represented by:					
Net financing need for the year (above)					
Less MRP/VRP and other financing movements	-21	-21	-21	-21	-21
Movement in CFR	**-21**	**-21**	**-21**	**-21**	**-21**

Note:- The MRP / VRP includes finance lease annual principal payments

Minimum Revenue Provision (MRP) Policy Statement

23. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

24. CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement*:*

25. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on CFR.

26. These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

27. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Depreciation method – MRP will follow standard depreciation accounting procedures. This provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

Core Funds and Expected Investment Balances

28. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will

have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Fund balances / reserves	19,810	***	***	***	***
Capital receipts	708	***	***	***	***
Provisions	1,943	***	***	***	***
Other	0	***	***	***	***
Total core funds	**22,461**	***	***	***	***
Working capital*	22,461	***	***	***	***
Under/over borrowing	0	***	***	***	***
Expected investments	**22,461**	***	***	***	***

*Working capital balances shown are estimated year end; these may be higher mid year

*** Figures to be added to Cabinet report when Capital Programme is completed

Affordability Prudential Indicators

29. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of Financing Costs to Net Revenue Stream

30. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs, net of investment income) against the net revenue stream.

	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	-3.00%	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

The estimates of financing costs include current commitments and the proposals in the budget report.

Incremental Impact of Capital Investment Decisions on Council Tax.

31. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Council tax band D	£0.18	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

Treasury Management Issues

32. The capital expenditure plans set out above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

33. The Council's treasury portfolio position at 17 December 2012 appears in Appendix A.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

34. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	**5,000**	**5,000**	**5,000**	**5,000**

The Authorised Limit for external debt

35. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

36. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

37. The Council is asked to approve the following Authorised Limit:

Authorised limit	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	**5,000**	**5,000**	**5,000**	**5,000**

Prospects for Interest Rates

38. The Council has appointed Sector Treasury Services Limited as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix B draws together a number of current City forecasts for short term and longer fixed interest rates. Appendix C contains Sector's latest economic background report.

39. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

40. The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

41. This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

42. It is anticipated that there will be no capital borrowings required during 2013/14.

Annual Investment Strategy

Investment Policy

43. The Council's investment policy has regard to the Department of Communities and Local Government (CLG) Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

44. In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

45. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps (CDS)" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by Sector in producing its colour codings which show the varying degrees of suggested creditworthiness.

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

47. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

48. The intention of the strategy is to provide security of investment and minimisation of risk.

49. Investment instruments identified for use in the financial year are listed in Appendix D under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set below.

Creditworthiness Policy

50. This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

51. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which

indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

52. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

53. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A, viability rating of A- and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

54. All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

55. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

Country limits

56. The Council has determined that it will only use approved counterparties from the UK or the EU which also have a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other Creditworthiness Issues

57. The Council's current investment policy further limits the one proposed by Sector as follows:-

a. Maximum investment period of 1 year.

b. Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies.

c. Total investments in any one foreign country are limited to 15% of the total fund.

d. Investments are limited to £5m per counterparty excluding call accounts and £6m including call accounts.

e. UK-based institutions to be used as a first preference.

58. In the last cycle of meetings, officers have suggested a change to some of these limits in order to provide more flexibility when placing investments and to take greater advantage of the better rates offered by the nationalised or semi-nationalised UK banks. The proposal for the 2013/14 investment policy is as follows:

a. Maximum investment period of 1 year.

b. Investments are limited to 40% of the total fund to any single institution or institutions within a group of companies

c. Total investments in any one foreign country are limited to 15% of the total fund, but UK-based institutions to be used as first preference..

d. Investments are limited to £5m per counterparty excluding call accounts and £6m including call accounts except for Lloyds Banking Group plc and Royal Bank of Scotland Group plc, where the limits will be £8m for each with no distinction between fixed deposits and call accounts.

e. If the Council's own banker, Barclays, falls below Sector's minimum credit rating requirements, it will nevertheless continue to be used, although balances will be minimised in both monetary size and duration.

f. Building societies that do not meet Sector's minimum credit rating requirements will nevertheless be included provided they have assets in excess of £9bn. At the time of writing this report, the relevant societies are Yorkshire, Coventry, Skipton and Leeds (the Nationwide is already included by virtue of its credit ratings). The maximum investment per counterparty is limited to £2m and the maximum duration of any single investment 3 months.

59. These proposed changes are to be considered by the Finance Advisory Group at its meeting on 23 January 2013, but the views of this Committee would also be welcome.

<u>Investment Strategy</u>

59. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

60. Bank Rate is forecast to remain unchanged at 0.5% before strating to rise from quarter 4 of 2014. Bank Rate forecasts for financial year ends (March) are:

- 2012/2013 0.50%
- 2013/2014 0.50%
- 2014/2015 0.75%
- 2015/2016 1.75%

61. There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

62. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.50%
2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

<u>Icelandic Bank Investments</u>

63. This authority currently has an investment of £1m frozen in Landsbanki Islands hf. The investment was placed on 25 June 2007 at 6.32%, to mature on 25 June 2009.

64. The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. The Local Government Association is coordinating the efforts of all UK authorities with Icelandic investments.

65. At the current time, the process of recovering assets is still ongoing with the administrators. Investments outstanding with the two Iceland–domiciled banks (Glitnir Bank hf and Landsbanki Islands hf) have been subject to decisions of the Icelandic Courts. Following the successful outcome of legal test cases in the Icelandic Supreme Court in late 2011, the Administrators have now commenced the process of dividend payments in respect of both of these banks.

<u>End of Year Investment Report</u>

66. At the end of the financial year, the Council will receive a report on its investment activity as part of the Annual Treasury Report.

Scheme of delegation

67. The guidance notes accompanying the revised Code also require that a statement of the Council's scheme of delegation in relation to treasury management is produced as part of the Annual Investment Strategy. This appears at Appendix F.

Role of the Section 151 officer

68. As with the scheme of delegation mentioned in the previous paragraph, a statement of the role of the Section 151 officer is also required. This appears at Appendix G.

Key Implications

Financial

69. The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.

70. There are financial implications arising from the restriction of the Council's lending list in that an inferior rate of interest may have to be accepted on a particular investment if some of the smaller and lower-rated institutions have been removed from the list.

Community Impact and Outcomes

71. There are no community impacts arising from this report.

Legal, Human Rights etc.

72. This report satisfies the requirements of the Local Government Act 2003 and supporting regulations plus the Council's Financial Procedure Rules which both require the preparation of an annual treasury strategy.

Equality Impacts

73.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	The recommendation is concerned with investment management and does not directly impact upon a service provided to the community.
b. Does the decision being made or recommended through this paper have the potential to	No	

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
promote equality of opportunity?		
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		No mitigating steps are required.

Conclusions

74. The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances.

75. In line with the revised CIPFA Code of Practice on Treasury Management, the Annual Treasury Strategy must be considered by Council and this is planned for its meeting on 19 February 2013. Given the current uncertainties in the banking sector and financial markets, the Council may need to consider amending its strategy during the year.

Risk Assessment Statement

76. Treasury Management has two main risks :

- Fluctuations in interest rates can result in a reduction in income from investments; and
- A counterparty to which the Council has lent money fails to repay the loan at the required time.

Consideration of risk is integral in our approach to treasury management.

77. This report proposes new investment limits. The movement towards having a restricted lending list of better quality institutions but higher individual limits with those institutions reduces the chances of a default. But if a default did occur, the potential loss would be greater. Previously, the preference was to have smaller investments with a greater range of institutions.

78. These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

Sources of Information:	Existing treasury counterparty list Treasury Management Strategy Statement for 2013/14 provided by Sector Treasury Services Ltd. CIPFA – Prudential Code on Treasury Management ODPM (now DCLG) – Guidance on Local Government Investments (March 2004) CIPFA Treasury Management in the Public Services Code of Practice (Revised 2009,2010 & 2011)
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