APPENDIX 1

TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15

1. Background

1.1 The Council is required to operate a balanced budget, with cash raised during the year sufficient to meet the Council's cash expenditure. Treasury management supports the Council by seeking to ensure its cash flow is adequately planned, with cash being available when it is needed. Surplus cash is invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate security and liquidity before considering an investment return.

1.2 A second function of treasury management is funding 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.

1.3 The Council is responsible for its treasury decisions, activity and risk appetite. The successful identification, monitoring and control of risk are integral elements of treasury management, including credit and counterparty risk, liquidity risk, market risk, interest risk, refinancing risk and legal and regulatory risk.

1.4 The Treasury Management Strategy takes into account the impact of the Council's proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators (PIs) and the outlook for interest rates. In addition the current market conditions are factored into any decision making process.

1.5 As the Council is responsible for housing, PIs relating to capital expenditure, financing costs and the Capital Financing Requirement (CFR) will be split between the Housing Revenue Account (HRA) and the General Fund (GF). The impact of new capital investment decisions on housing rents will also need to be considered.

2. Reporting Requirements

2.1 The Council is required to receive and approve at least three main treasury reports each year. These reports are required to be adequately scrutinised by Committee before being recommended to the Council.

2.2 **Prudential and Treasury Indicators and Treasury Strategy** (this report) covers:

- the capital plans (including PIs);
- a Minimum Revenue Provision policy; and
- the Treasury Management Strategy (including the investment strategy).

2.3 **An annual treasury report** which outlines the actual PIs, treasury indicators and treasury operations compared to the estimates within the strategy.

2.4 **A mid-year treasury management report** to update Members on the progress of the capital position, amending PIs and investment strategy as necessary.

3. Treasury Management Strategy for 2014/15

3.1 The Local Government Act 2003 and supporting regulations require the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to:

1. set Prudential and Treasury Indicators for the next three years; and
2. ensure the Council's capital programme is affordable, prudent and sustainable.

3.2 The Act requires councils to set out their 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.

3.3 The Department of Communities and Local Government (DCLG) has issued revised investment guidance that came into effect from 1 April 2010, and the Council has adopted the recommendations of the guidance.

3.4 The strategy for 2014/15 covers two main areas:

Capital Issues

- The capital plans and the prudential indicators; and
- The minimum revenue provision (MRP) strategy.

Treasury Management Issues

- Treasury Management Advisors;
- Member and Officer Training;
- The current portfolio position;
- Economic Forecast and Prospects for Interest Rates;
- The General Fund and HRA borrowing requirement and strategy;
- Policy on borrowing in advance of need, debt rescheduling and repayment;
- The use of the Council's resources and expected investment balances;
- The Annual Investment Strategy and Investment Policies;
- Investment Counterparty Selection Criteria and Creditworthiness policy;
- Use of additional information other than credit rating;
- Policy on use of external service providers; and
- Treasury indicators which limit the treasury risk and activities of the Council.

4. Treasury Management Advisors

4.1 The Council uses Capita Asset Services for external treasury advice. However the Council does recognise that it is ultimately responsibility for all treasury management decisions and will ensure that undue reliance is not placed on the external advisors.

4.2 The Council also recognises that, if managed correctly, there is some value in receiving advice from external treasury advisor 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 documented, and subjected to regular review.

4.3 For its cash flow generated balances, the Council will utilise a range of investment instruments, as agreed within the Annual Investment Strategy restrictions (appendix 1D) in order to benefit from the compounding of interest.

5. Member and Officer Training

5.1 The CIPFA Code requires the responsible officer, the Chief Finance Officer (CFO), to ensure that members with responsibility for treasury management receive adequate training in treasury management. Training will be arranged for Members as required. The training needs of treasury management officers are periodically reviewed.

6. Economic Forecast and Prospects for Interest Rates

6.1 Economic Forecast

The long term trend is for gilt yields and PWLB rates to continue to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently weighted to the upside after a number of months of robust good news on the economy. Interest rate forecasts have been adjusted to reflect the improvement in economic conditions, with table 3 outlining Capita's central view on interest rates.

Table 3: Capita Asset Services Bank Rate and PWLB borrowing rate forecast

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar-14	0.50	2.5	4.4	4.4
Jun-14	0.50	2.6	4.4	4.4
Sep-14	0.50	2.7	4.5	4.5
Dec-14	0.50	2.7	4.5	4.6
Mar-15	0.50	2.8	4.6	4.7
Jun-15	0.50	2.8	4.7	4.8
Sep-15	0.50	2.9	4.8	4.9
Dec-15	0.50	3.0	4.9	5.0
Mar-16	0.50	3.2	5.0	5.1
Jun-16	0.50	3.3	5.1	5.2
Sep-16	0.75	3.5	5.1	5.2
Dec-16	1.00	3.6	5.1	5.2

6.2 As interest rate forecast shows that the UK base rate is forecast to remain at 0.5% until June 2016, this would mean that short term rates are likely to remain significantly lower than long term rates throughout 2014/15.

7. Current Portfolio Position

7.1 Table 1 shows the Council's investments and borrowing balances as at 31 December 2013, including the average life and the Rate of Return.

Table 1: Council's treasury position at 31 December 2013

	Principal Outstanding 31/12/2013 £'000s	Average Rate of Return 31/12/2013 %	Average Life as at 31/12/2013 (yrs)
Fixed Rate Funding			
PWLB	275,912	3.52	37.96
Market	40,000	4.02	54.89
Local Authorities (temporary borrowing)	11,800	0.51	0.07
Total Debt	**327,712**	**3.59**	**41.04**
Investments (In-House)	107,800	0.90	
Net Borrowing	**219,912**		

7.2 The sum invested broadly represents the reserves, provisions and balances that the Council holds together with the impact of any difference between the collection of income and expenditure (working capital). Included in Council managed cash balances is £7m relating to the Pension fund.

7.3 The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised in table 2. The table shows the actual external debt against the underlying capital borrowing need (CFR), highlighting any over or under borrowing.

Table 2: Council's treasury position at 31 March 2013, with forward projections

£'000s	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
External Debt					
Debt at 1 April	335,912	325,912	315,912	305,912	315,912
Expected change in Debt	-10,000	-10,000	-10,000	10,000	0
Other long-term liabilities	59,958	57,918	55,771	53,528	51,167
Gross debt at 31 March	**385,870**	**373,830**	**361,683**	**369,440**	**367,079**
CFR	**491,578**	**488,761**	**490,277**	**481,116**	**472,633**
Under / (over) borrowing	**105,708**	**114,931**	**128,594**	**111,676**	**105,554**

8. The Capital Expenditure Plans 2014/15 – 2016/17

8.1 The Council's Housing and General Fund capital expenditure plans, together with Balances and Reserves, are the key drivers of treasury management activity. The estimates for Capital expenditure, and its funding based on current proposed Revenue Budget and Capital Programmes, are reflected in prudential indicators, which are designed to assist Members overview and confirm capital expenditure plans. The Prudential Indicators are included in Appendix 1A of this report.

8.2 Table 4 below shows the proposed capital expenditure over the coming three financial years. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and, in the case of the HRA, housing rent levels.

Table 4: Proposed Capital Expenditure 2014 to 2017

Capital expenditure	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	Actual £000	**Approved £000**	**Estimate £000**	**Estimate £000**	**Estimate £000**
General Fund	57,473	57,574	84,014	32,265	(TBC)
HRA	31,059	80,587	92,315	41,639	39,757
Total	**88,532**	**138,161**	**176,329**	**73,904**	**39,757**
Financed by:					
Capital Grants	43,825	55,100	85,536	31,620	0
Section 106	6,120	1,592	0	0	
Revenue Contributions	931	846	400	0	0
Capital Reserves	1,056	452	765	0	0
Capital Receipts	4,521	25,684	13,026	6,375	0
HRA Contributions	17,548	47,507	65,552	35,629	39,757
Sub-Total	**74,001**	**131,181**	**165,279**	**73,624**	**39,757**
Net financing need for the year	**14,531**	**6,980**	**11,050**	**280**	**0**

8.3 The estimated financing need for the year in Table 3 represents a shortfall of resources resulting in a requirement to borrow. This underlying need to borrow is the CFR. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

8.5 Sufficient headroom has been provided within the Authorised Limit on external borrowing to ensure that any major capital investment projects where finance has yet to be finalised, are not restricted by this statutory limit. The limit covers any short term borrowing for cash flow purposes as well as long term borrowing for capital projects, finance leases PFI initiatives as well as any unforeseen incidences where expected capital receipts are not forthcoming due to unexpected economic factors.

9. The Council's Borrowing Strategy and Borrowing Requirement

9.1 The decision to borrow is a treasury management decision and is taken by the CFO under delegated powers of the Council's constitution. The key objective of the Council's borrowing strategy is to secure long term funding for capital projects at borrowing rates that are as low as possible. This can result in a trade off of short term returns on deposits to obtain the best possible rate on long term borrowings.

9.2 Treasury management, and borrowing strategies in particular, continues to be influenced by the absolute level of borrowing rates and also the relationship between short and long term interest rates. Rate forecasts indicate that interest rates will remain low until 2016 which creates a “cost of carry” between what is paid on the borrowing and what is earned on the investment for any new longer term borrowing. This is because borrowing requirements are generally over a long term period of up to 25 years, while cash is currently being invested for a maximum of a year.

9.3 As a result the Council will maintain an under-borrowed position throughout 2014/15. This means that the CFR will not be fully funded with loan debt during the year as cash supporting the Council’s reserves, balances and cash flow will be used as a temporary measure. This strategy is prudent as it reduces the “cost of carry” while investment returns remain low, as well as reduces the Council’s counterparty risk, which continues to be high and is likely to will continue throughout 2014/15.

9.4 As circumstances can change during the year, the CFO will monitor interest rates in financial markets and adopt a flexible approach to any changes. The Council’s borrowing strategy will also give consideration to the following when deciding to take-up new loans:

- Use internal cash balances while the current rate of interest on investments remains low and cash flow forecasts indicate that borrowing is not required;
- Consideration given to weighing the short term advantage of internal borrowing against potential long term costs if long term borrowing rates begin to increase more than forecast;
- Using PWLB or Local Authority short term fixed and variable rate loans;
- Maintain an appropriate debt balance between PWLB and market debt;
- Ensure new borrowings are drawn at suitable rates and periods; and
- Consider the issue of stocks and bonds if appropriate.

9.5 The Council has £40m of loans which are Lender’s Options Borrower’s Option (LOBO) and all of them will be in their call period during 2014/15. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower (the Council) can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the Lender’s discretion.

9.6 As LOBOs currently make up 12.7% of the total external debt portfolio, this is not a significant risk. Any LOBO called will have the default position of repayment of the LOBO without penalty, i.e. the revised terms will not be accepted.

10. Self Financing

10.1 HRA Debt

Central Government completed the reform of the HRA subsidy system on 28 March 2012. The Council is required to recharge interest expenditure and income attributable to the HRA in accordance with Determination issued by the CLG.

The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Treasury Management Code of Practice recommends that authorities present this policy in the annual TMSS.

The Council has adopted a two loans pool approach for long term debt.

- The full £265.9m of PWLB long term debt from the HRA reform settlement is allocated to the HRA, with the remaining £50.0m of debt allocated to the GF; and
- All future long term loans are allocated into either the HRA or GF pool.

A breakdown of the HRA borrowing is provided in table 5 below:

Table 5: HRA borrowing:

Loan Type	Loan Amount	Maturity profile	Interest Rate
	£'000s	Yrs	%
PWLB	50,000	27	3.51
PWLB	50,000	37	3.52
PWLB	50,000	45	3.49
PWLB	50,000	46	3.48
PWLB	65,910	47	3.48
Total	**265,910**		

A debt cap of £277m has been set for the HRA, which cannot be breached. Good treasury management is required under self-financing to support the achievement of business objectives and to conform to the requirements of the debt cap as should the cap be breached the CFO and the Council as a whole would be in breach of the law.

10.2 HRA Investments

Cash balances held by the HRA will be invested as part of the Council's overall treasury strategy. Cash balances will generally earn the average rate of the Council's investments, which will be calculated at the financial year end.

Where there is agreement between the CFO and the Corporate Director of Housing and Environment, individual investments can be ring-fenced for the HRA, with the allocations made within the Council's overall treasury strategy requirements.

For further details please refer to the HRA Business Plan.

11. Policy on borrowing in advance of need

11.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

11.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

11.3 Current forecasts indicate that it is unlikely that the Council will seek to borrow in advance in 2014/15.

12. Debt rescheduling and repayment

12.1 As short term borrowing rates are usually cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, any savings will need to be based on the current treasury position and the size of the cost of debt repayment (premiums incurred).

12.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile).

12.3 Consideration will be given to identify any residual potential to make savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

12.4 Any rescheduling will be reported to the Council at the earliest meeting.

12.5 In April 2014 a £10m PWLB loan, borrowed at 4.25%, matures. Given the high level of cash currently held, the loan is expected to be repaid and will not immediately be replaced. This will reduce the General Fund borrowing to £40m.

13. Minimum Revenue Provision Policy Statement

13.1 In accordance with Statutory Instrument 2008 number 414 and new guidance issued by the Government under section 21 (1A) of the Local Government Act 2003 a statement on the Council's policy for its annual MRP needs to be approved before the start of the financial year.

13.2 The Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 1C.

14. The use of the Council's Resources and expected investment balances

14.1 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 £'000s	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Fund balances / reserves	231,366	234,000	212,000	212,000	226,000
Capital receipts	15,609	20,000	19,000	17,000	17,000
Provisions	8,616	8,000	8,000	8,000	8,000
Total core funds	**255,591**	**262,000**	**239,000**	**237,000**	**251,000**
Working capital*	28,469	30,000	30,000	30,000	30,000
External borrowing	325,912	316,000	306,000	316,000	316,000
CFR	(491,578)	(489,000)	(490,000)	(481,000)	(473,000)
Expected investments*	**118,394**	**119,000**	**85,000**	**102,000**	**124,000**

**Working capital balances and expected investments are estimated year end; these may be higher mid-year.*

15. Annual Investment Strategy and Investment Policies

15.1 **Investment policy**

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

15.2 These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime. The key intention of the guidance is to maintain the current requirement for councils to invest prudently. The Council's investment priorities are:

- **security** of the investment capital;
- **liquidity** of the investment capital; and
- an optimum **yield** which is commensurate with security and liquidity.

15.3 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 agency. Using the Capita Asset Services ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

15.4 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 continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate.

15.5 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 and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Capita Asset Services.

15.6 Other information sources used will include the financial press 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.

15.7 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and to minimise risk.

16. Security of Capital - the Creditworthiness Policy

16.1 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. 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 the most creditworthy countries.

16.2 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 suggested duration for investments.

16.3 The Council will therefore use counterparties within the following durational bands:

- Yellow - 5 years (this is for AAA rated Government debt or its equivalent)
- Pink - 5 years (this is for Enhanced money market funds)
- Purple - 2 years
- Blue - 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green - 100 days
- No colour - not to be used

16.4 The Capita Asset Services 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.

16.5 Typically the minimum credit ratings criteria the Council will use is the 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.

16.6 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services 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 spreads 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.

16.7 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.

17. Use of additional information other than credit ratings.

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

18. Time and monetary limits applying to investments.

18.1 The time and monetary limits for institutions on the Council's counterparty list are set out in appendix 1D (these will cover both specified and non-specified investments).

18.2 The time limits and monetary limits set out in appendix 1D are the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

19. Use of other Local Authorities

19.1 Where the investment is a straightforward cash loan the Local Government Act 2003 s13 suggests that the credit risk attached to English, Welsh and Scottish local authorities is an acceptable one. The Council will limit its lending to local authorities in England, Wales and Scotland.

20. Use of Multilateral Development Banks

20.1 S15 of the Local Government Act 2003 SI 2004 no. 534 amended provides regulations to clarify that investments in multilateral development banks were not to be treated as being capital expenditure. Should the Council invest in such institutions then only such institutions with AAA credit rating and government backing would be invested in consultation with the Council's treasury adviser and the S151 Officer.

21. Use of Brokers

21.1 The Council deals with many of its counterparties directly through its daily dealings. From time to time the Council will use the services of brokers to act as agents between the Council and its counterparties when lending or borrowing. However no one broker will be favoured by the Council. The Council will ensure that sufficient quotes are obtained before investment or borrowing decisions are made via brokers.

22. Country limits and Use of Foreign Banks

22.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA (excluding the United Kingdom) from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. This will ensure that the Council's investments are not concentrated in too few counterparties or countries.

22.2 Given the strength of some foreign banks the Council will invest in strong non UK foreign banks whose soverign and individual ratings meet its AAA minimum criteria.

22.3 As the United Kingdom's sovereign rating was downgraded in 2013, the TMSS will not set a minimum sovereign rating of AAA for the United Kingdom so as to ensure continuity of being able to invest in UK banks.

23. Investment strategy

23.1 **In-house funds.** 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).

23.2 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

23.3 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

23.4 Investment instruments identified for use in the financial year are listed in Appendix 1D under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

23.5 Alternative financial instruments such as derivatives will not currently be considered but future use will remain under review.

24. Provisions for Credit-related losses

24.1 If any of the Council's investments appeared at risk of loss due to default, (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount. Where there is a loss of the principal amount borrowed due to the collapse of the institution, the Council will seek legal and investment advice.

25. End of year investment report

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

26. External cash managers

26.1 In December 2013 the Council recalled its remaining cash managed by an external cash manager, Investec. This was due to the current very low rates of return and the relatively poor return provided net of fees.

26.2 The use of external cash managers will be periodically reviewed during the year.

27. Pension Fund Cash

27.1 The Council manages its Pension Fund's in-house cash with its share of interest earnings credited to the Pension Fund.

27.2 From 7 April 2014 the Pension Fund will have a bank account that is separate from the Councils for investment purposes, in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations of 2009.