Agenda Item

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Shetland Islands Council

Policy and Resources Committee **29 June 2015**
Shetland Islands Council **30 June 2015**

Annual Investment and Treasury Strategy for 2015/16	
F-014-F	
Report Presented by Executive Manager Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to propose an Annual Investment and Treasury Strategy for the Council for the financial year 2015/16. This report also includes certain clauses, policy statements and practices to be adopted in line with the CIPFA Code of Practice for Treasury Management in the Public Services 2011.

1.2 In line with the Scottish Minister's consent under The Local Government Investments (Scotland) Regulations 2010 an Annual Investment Strategy must be reported to the Council.

2.0 Decision Required

2.1 That the Policy and Resources Committee RECOMMENDS that the Council RESOLVES to:

2.1.1 Approve the Annual Investment Strategy Statement to be followed for the financial year 2015/16, as set out in Appendix 1 section 2.

2.1.2 Approve the Treasury Management Strategy to be followed for the financial year 2015/16, as set out in Appendix 1 section 3.

2.1.3 Approve the Treasury Management Prudential Indicators for 2014/15 to 2017/18, as set out in Appendix 1 section 4.

2.1.4 Review the four clauses within the CIPFA Code of Practice as set out in Appendix 1 section 5.

2.1.5 Review the Treasury Management Policy Statement as set out in Appendix 1 section 6, and

2.1.6 Review the Statement of Treasury Management Practices as set out in Appendix 1 section 7.

3.0 Detail

3.1 This report will address the requirements of the Scottish Minister's consent and the CIPFA Code of Practice for Treasury Management in the Public Services 2011. There are various requirements attached to the Scottish Ministers' consent, with the production of an Annual Investment Strategy duly approved by the Council each year, being central to the consent.

3.2 Other requirements of the consent involve the CIPFA Code. A key principle of the CIPFA Code is that "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

3.3 In line with this principle, the CIPFA Code recommends the adoption of the CIPFA Code itself, adopted by the Council on 21 March 2012 (Min Ref 25/12), along with an annual review of the four clauses within the CIPFA Code, a Treasury Management Policy Statement and a Treasury Management Practices Statement. The schedules complying with the clauses and the statements are covered in Appendix 1 to this report.

3.4 One of the reporting requirements of the consent is to produce an Annual Investment Strategy Statement. The annual investment strategy is designed to give an integrated local authority strategy within which both its borrowing and investments are considered. As such the Scottish Ministers recommended that there be a single strategy covering capital, treasury management, the setting of prudential indicators and the requirements of the investment regulations and consent. This strategy is in Appendix 1 at sections 2, 3 and 4.

3.5 The Council has formally adopted all previous CIPFA Codes of Practice for Treasury Management, with the recent revised 2011 Code adopted on 21st March 2012 (Min Ref 25/12).

3.6 The CIPFA Code is intended to provide guidance on the best practice for treasury management, and has the support of a wide range of organisations including the Scottish Government. It defines treasury management as "The management of the organisation'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."

3.7 Within the CIPFA Code there are four specific clauses that are seen as essential for the effective management and control of treasury management activities. These clauses were adopted by the Council on 21st March 2012 (Min Ref: 25/12) and require to be reviewed annually. These clauses cover:

- Two documents to be created; a treasury management policy statement and a treasury management practices document
- Reporting requirements
- Delegation of responsibility
- Organisation's responsibilities

In line with the CIPFA Code these four clauses are set out in Appendix 1 section 5, for review in line with the CIPFA Code.

3.8 The Treasury Management Policy Statement was adopted by the Council on 21st March 2012 (Min Ref: 25/12) as required by the CIPFA Code. The Treasury Management Policy Statement defines the policies and objectives of the treasury management function. The proposed Treasury Management Policy Statement for 2015/16 is in Appendix 1 at section 6. This policy statement uses a form of words as recommended by CIPFA in its Code and is subject to annual review.

3.9 The Treasury Management Practices Statement was adopted by the Council on 21st March 2012 (Min Ref: 25/12) as required by the CIPFA Code. The Practices Statement covers twelve specific areas that are relevant to the scope and powers of treasury management activities. They define and set out the general approach to be followed in treasury management. The specific details of the systems and routines to be employed and the records to be maintained, are described in more detail in a Treasury Management Procedural document, which is kept in the Treasury Section of the Finance Service.

3.10 The proposed Treasury Management Practices are subject to annual review and are in Appendix 1 at section 7. They follow a general wording in the Code of Practice amended where necessary to reflect the particular circumstances of the Council's Treasury function.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The Council's overall investment strategy is important to the Council's Reserves, which play a key role in helping the Council deliver its corporate objectives, as described in the Community Plan, the Corporate Plan and other strategic documents.

4.2 Community /Stakeholder Issues – None

4.3 Policy And/Or Delegated Authority – In accordance with Section 2.2.1(7) of the Council's Scheme of Administration and Delegations, the Policy and Resources Committee has delegated authority to secure the co-ordination, control and proper management of the financial affairs of the Council.

The Annual Investment Strategy is a specific plan contained within the Council's Policy Framework set out in the Councils constitution (Part A – 3(2)) to be prepared and performance managed by the Policy and Resources Committee. Approving, adapting or amending any plan within the policy framework is reserved to full Council (Part A – 3(1)), taking advice from the Policy and Resources Committee, in accordance with Section 2.2.1 of the Council's Scheme of Administration and Delegations.

4.4 Risk Management – The annual investment strategy employed by the Council will impact on the long-term projected investment returns of the Council's reserves, and have consequences for the daily operating cash capabilities of the Council.

As the Council reserves are used for both capital projects and ongoing revenue purposes, the returns from the external investments will have a direct impact on the Council's future operations.

4.5 Equalities, Health And Human Rights – None

4.6 Environmental – None

Resources

4.7 Financial – Any change to an investment strategy will impact on the potential return from the investments. This has a direct impact on the Council's budgets that include investment returns as part of the budgeted income.

4.8 Legal – As required by the consent issued by the Scottish Ministers under the Local Government Investments (Scotland) Regulations 2010 the investment strategy should be approved by the local authority (i.e. full Council or Board).

4.9 Human Resources – None

4.10 Assets and Property – None

5.0 Conclusions

5.1 This report includes at Appendix 1 the Annual Investment and Treasury Strategy for the Shetland Islands Council to be followed for the financial year 2015/16.

5.2 This investment strategy meets the requirements of the minister's consent and complies with CIPFA's Code of Practice for Treasury Management in the Public Services 2011.

5.3 The CIPFA Code also suggests that the Council should review its approved clauses, its Treasury Management Policy Statement and its Treasury Management Practices Statement which are included in Appendix 1.

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Appendix 1 – Annual Investment & Treasury Strategy 2015/16

END

Shetland Islands Council

Annual Investment & Treasury Strategy

2015-16

Securing the best for Shetland

Contents

Introduction

Regulatory requirements

1.01 This report addresses the requirements of the Scottish Minister's consent and the CIPFA Code of Practice for Treasury Management. There are various requirements attached to the Scottish Ministers' consent, with the production of an Annual Investment Strategy which requires approval by the Council each year, being central to the consent.

1.02 Other requirements of the consent involve the CIPFA Treasury Management Code of Practice. A key principle of the CIPFA Code is that "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

1.03 In line with this principle the CIPFA Code recommends the adoption of the code itself, which was adopted by the Council on 21 March 2012 (Min Ref 25/12), along with an annual review of the four clauses within the code, a Treasury Management Policy Statement and a Treasury Management Practices Statement. All of these requirements are covered by this report.

Investment and Treasury Management Strategies

1.04 The Council adopted a strategic 5-year Investment Strategy for the Council's reserves in June 2013. This annual report compliments that overarching strategy and sets out the Council's approach during 2015-16 that will contribute towards the overall 5 year strategy.

1.05 In addition, this report sets out the wider Treasury Management Strategy for 2015-16 which also includes the management of cash and borrowing. The parameters around the Council's borrowing activity are set out in the Prudential Indicators section of this report.

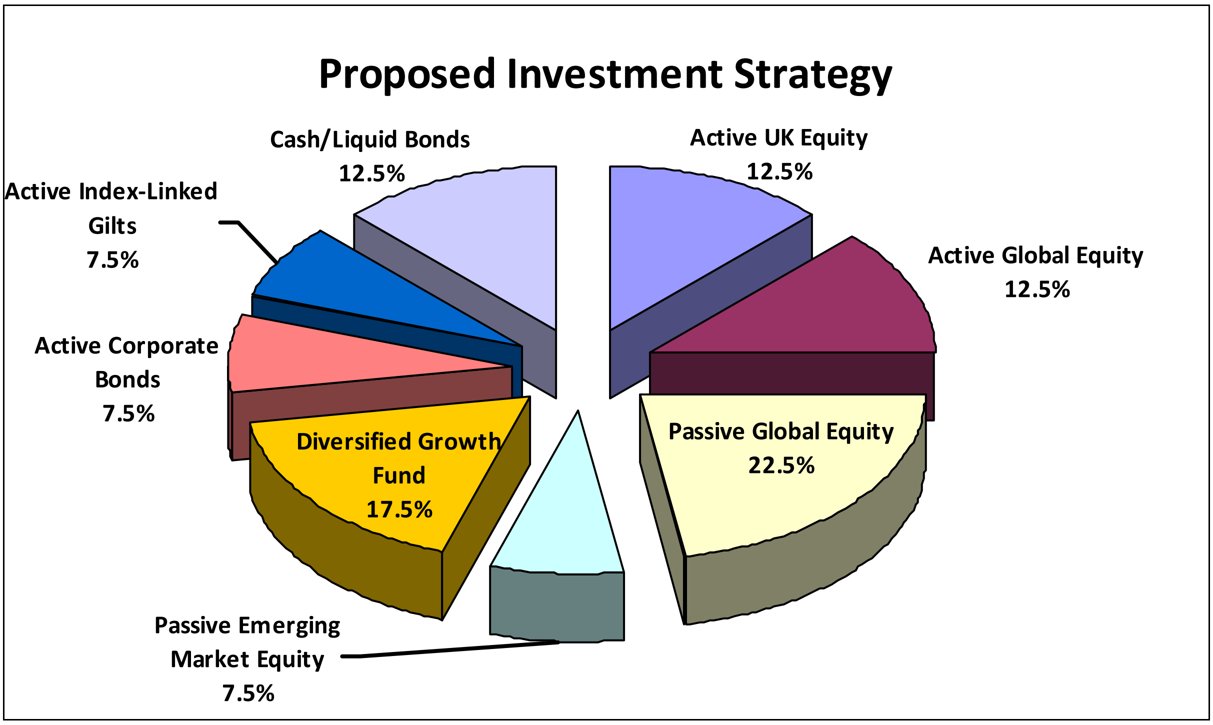
Annual Investment Strategy Statement 2015-16

Long-Term Investments

2.01 Following the adoption of the Medium Term Financial Plan (MTFP) in 2012 the Council undertook a review of its Investment Strategy during 2013/14 in order to ensure that it was aligned to the objectives of the MTFP.

2.02 As a result a new Strategic Investment Strategy 2013-2018 was adopted by the Council in June 2013, which resulted in changes in the way the Council invested its reserves with fund managers.

2.03 The proposed Investment Strategy for 2015/16 continues to follow the asset allocation agreed in June 2013, with the following asset allocation:



2.04 The percentages above are the initial benchmark percentages agreed after the reorganisation in October 2013. Throughout 2014/15 these percentages varied depending on withdrawals, market movements and investment returns. These fluctuations are expected over the short term.

2.05 There is no intention to rebase back to the initial percentages, as this would incur additional transaction costs. Any large variations from the benchmark can be controlled when making withdrawals and injections of funds. The fund managers will continue to invest during 2015/16 as per their investment percentage position and these are constantly monitored by the Council's Treasury function.

2.06 In addition, it should be noted that the cash/liquid bond allocation was designed as the asset class that would be targeted for withdrawals when cash is needed to meet current council expenditure. This is because it is guaranteed not to lose its capital value, thus eradicating the risk of incurring losses when selling investments to meet current expenditure needs. It should therefore be expected that this asset allocation will shrink as an overall percentage of the portfolio during 2015-16.

2.07 The current percentage of funds under management for each fund manager at 31 March 2015 was:

General Fund	**%**
Active UK Equities – Baillie Gifford	14.2
Active Global Equities – Baillie Gifford	14.6
Passive Emerging Market Equities – BlackRock	8.6
Passive Global Equities - BlackRock	25.4
Diversified Growth Fund – Baillie Gifford	19.1
Active Corporate Bonds – Insight	8.1
Active Index-linked Gilts – Insight	4.6
Cash/Liquid Bonds – Insight	5.4
TOTAL	100

2.08 All long-term investments that are managed externally by fund managers are held for the purpose of achieving an investment return. To this end all investments are managed in a way that minimizes the risk to the capital sum and optimises the return on the investment consistent with those risks. This involves setting benchmarks for each fund and for each unitised product within the funds. These benchmarks (market indexes) are used to evaluate the performance of each investment against their investment market, with large deviations both above and below these markets questioned similarly.

2.09 All of the long-term investments with "active" mandates require the fund manager to have an investment return target above the benchmark return. The target is a level of out performance above the benchmark that is seen as achievable with a low level of measured risk on a given mandate. The Manager will actively seek to produce investment returns in order to achieve the stated target. Performance at or above target is desirable but any returns above the benchmark will add value to the fund above the market return.

2.10 In addition to these long term investments, the Council also has a portfolio of local investments. These investments predominantly take on the form of loans to local businesses. The Medium Term Financial Plan sets out the criteria for awarding these loans which states that the Director of Development Services and Executive Manager – Finance must agree that –

- The loan will generate the Council a rate of return at least equal to the markets in which the Council currently invests; and

- Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council.

2.11 The proposed investment strategy for 2015-16 proposes to continue to adhere to the principles of the Medium Term Financial Plan, with a minimum interest rate set at 5.1% for the forthcoming financial year, which is equal to average fund manager returns (net of fees).

2.12 In addition the Economic Development Department will ensure compliance with the State Aid Regulations.

Short-Term Investments

2.13 Short–term investments are held in cash, either with the Council's bank or on short-term deposits. These are managed by the Council's Treasury function on a daily basis to ensure the efficient operation of Council activities.

Permitted Investments

2.14 Every mandate the Council awards to a fund manager is finalised by both the Council and the fund manager entering into an Investment Management Agreement. This agreement covers all aspects of the mandate, including the type of investments to be held and the minimum and maximum investment levels allowed. Any breach of these set levels must be reported immediately by the fund manager and rectified as soon as practical. No rebasing of the asset class allocation split shall take place during 2015/16 unless with the approval of the Council.

2.15 On an annual basis each fund manager makes available their internal controls report. These reports are produced by their respective external auditors, and review all aspects of the fund manager's operating controls, with any concerns and weaknesses reported. The reports are reviewed by Treasury within Finance annually, with any concerns or issues identified that may impact on the Council reported accordingly.

2.16 The Council does not impose ethical views on fund managers within the Investment Management Agreement. The Council does not place constraints on a fund manager in relation to actual investment decisions, as it would affect the long-term projected investment returns, and the budget set by the Council. The fund manager, within the criteria stated in the Investment Management Agreement, makes investment decisions.

2.17 The Council's current investment strategy set general investment asset class levels, though these are flexible due to money movements and investment income.

Responsible Investment

2.18 Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers will be expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.

2.19 Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Council will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions.

2.20 The fund managers, who will act in accordance with this policy, will exercise voting.

2.21 Baillie Gifford, BlackRock and Insight have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.

Risk Management

2.22 The authority's investments and financial activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

2.23 The authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Treasury Service, under policies approved by the Council in the Investment Strategy Statement.

Credit Risk

2.24 Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks or financial institutions unless they meet one of the following categories:

- A Bank or Building Society with at least a A- long term Fitch rating
- Bank of Scotland – Council's own bank
- Any bank which is a wholly owned subsidiary of the above
- Any Local Authority

2.25 The A- long term rating is defined by Fitch as "High credit quality with a low expectation of default risk. The capacity for payment of financial commitments is considered strong." An approved lending list of the financial institutions that meets this criteria will be maintained and displayed in Treasury.

2.26 In addition the following guidelines will apply:

- No more than £3 million to be lent to any single organisation from one account, apart from the Council's own bank.

- No more than £6 million to be lent to any one organisation in total from all accounts, apart from the Council's own bank.

2.27 At the 31 March 2015 the Council had deposits and short-term loans with the Council's own bank, amounting to £4.1 million. The Council's exposure to credit risk on these current deposits is very low based on the last five financial year's experience, where no default or loss has occurred.

Liquidity Risk

2.28 The authority has external investments with fund managers amounting to £278 million at the 31 March 2015. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

Market Risk

2.29 The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority's investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31 March 2015 is diversified between the following main markets:

UK Equities

Overseas Equities

Index Linked Gilts

Corporate Bonds

Cash

The Diversified Growth Fund with Baillie Gifford was invested in 15 different asset classes at 31st March 2015.

2.30 The largest investment is in the Equity markets, about 63% of the Council's Reserves.

Foreign Exchange Risk

2.31 The authority has overseas equities and bonds that are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates can be reduced by the fund managers, through the use of currency hedging strategies to specifically negate any currency movement impact.

Treasury Management Strategy 2015-16

Treasury Management

3.01 Treasury Management is defined as the management of an organisation's investments, cash flows, 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.

3.02 The Treasury Management Strategy details the activities and guidelines to be followed by the Treasury Section for all areas of cash management in the forthcoming financial year 2015/16. Its production and submission to the Shetland Islands Council is a requirement of the CIPFA Code of Practice for Treasury Management in the Public services.

Cash and Bank

3.03 Cash Management for the Shetland Islands Council is carried out within the Treasury Section of Finance Services, and consists of the daily management of various bank accounts and any associated short-term lending.

3.04 The Treasury Section of Finance Services seeks to retain a daily cash balance no lower than £2m in order to ensure that there is sufficient cash available to meet all liabilities as they fall due. The balances on the Council's current account earn an annual return of 0.5%, and as such it is important to ensure that no excess balances are held in the Council's current account as the returns are far lower than those that can be earned with fund managers.

3.05 There is an agreed overdraft facility with the bank of £800,000 that can be used to cover the accounts managed by Treasury, for any short-term situations if required. However, the Treasury Section seeks to avoid such situations as bank charges will be applied should the current account balance become overdrawn.

Debt Management

3.06 Debt Management is also carried out within the Treasury Section, and this will be undertaken in line with the Borrowing Policy and Strategy as agreed by Council in December 2013, and the Prudential Indictors as set out in Section 4 of this report.

3.07 This report also seeks Council approval to provide the Executive Manager – Finance delegated authority to undertake short term borrowing of no longer than 364 days in order to provide greater flexibility to the Treasury Section for managing cash-flow efficiently for payments as they fall due.

3.08 The limits requested for short term borrowing of up to 364 days are included in the Prudential Indicators (Indicator 4 *Authorised Limit for External Debt* and Indicator 5 *Operational Boundary for External Debt*).

3.09 At present it is possible to obtain short term borrowing from other local authorities at an annual interest rate of less than 1%. There may be times during the year that it is more cost effective for the Council to borrow in order to meet a cash shortfall, such as the payment of salaries, rather than automatically recall the money from the externally invested reserves. The Executive Manager – Finance will determine if an when this is the most appropriate course of action.

Treasury Management Prudential Indicators 2014-15 to 2017-18

Prudential Framework

4.01 The Local Government in Scotland Act 2003 repealed Section 94 of the Local Government (Scotland) Act 1973. Sections 35 to 37 of the 2003 Act introduced a responsibility for local authorities to locally determine the level of capital investment. Regulations introduced under the Act required that local authorities should adhere to The CIPFA Prudential Code for Capital Finance in Local Authorities.

4.02 The Prudential Code was introduced in April 2004, effectively replacing the Capital Expenditure controls within section 94 where ministerial consent was required before any capital expenditure could be incurred. In addition, there was a restriction on the commitment to capital expenditure for future years and a control over the actual financing of the capital expenditure. The 'prudential framework' (or prudential regime) is the collective term for legislation, regulation and the Code under which local authorities will operate.

4.03 The introduction of the Prudential Code brought much greater flexibility for Councils to develop capital programmes to support their local communities. The key watchwords within the Prudential Code are:-

- Affordability
- Prudence
- Sustainability.

4.04 The Prudential Code provides a framework for the internal control and self-management of capital finance, and in turn the key items of expenditure that will normally govern the bulk of an authority's potential need to borrow. It does also refer to the fact that forward estimates of external debt, defined in part as actual external borrowing, will follow on from an authority's capital plans and revenue forecasts, under their treasury management strategy. The Prudential Code also requires that the underlying commitment to finance leases and similar contracts is recognised when setting the indicators.

4.05 It is understandable that the Prudential Code seeks to concentrate primarily upon a need for an authority to ensure that its capital spending plans are affordable, as it is these plans that will, in general, be the main driver of an authority's need to undertake or increase the amount of external borrowing. The opening paragraph of the Executive Summary makes clear its overriding objective, namely "The Prudential Code plays a key role in capital finance in local authorities", whilst paragraph 7 of its Objectives states that it focuses on capital finance and effective capital planning. The Prudential Code perhaps sums up the overall situation regarding the consideration of affordability in paragraph E12, wherein it states – "affordability is ultimately determined by a judgement about acceptable council tax levels".

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

4.07 In setting their prudential limits, Members must have regard to:

- Affordability e.g. implications of capital plans for council tax and council housing rents.
- Prudence and sustainability, e.g. implications of external borrowing and an assessment of borrowing costs and interest rate forecasts/expectations.
- Value for money, e.g. options appraisal.
- Stewardship of assets, e.g. asset management planning.
- Service objectives, e.g. strategic planning for the authority.
- Practicality, e.g. achievability of the forward plan.

Prudential Indicators

4.08 It is proposed that the Prudential Indicators for Shetland Islands Council for 2014-15 to 2017-18 should be as follows:

1. Ratio of Financing Costs to Net Revenue Stream

Definition

General Fund – The proportion of the General Fund income from the Council's General Revenue Grant (including NNDR) and Council Tax income to fund the debt financing costs (interest and Principal Repayments) of the planned capital programme.

Housing Revenue Account – The proportion of income to the HRA (substantially Housing Rents) to fund the debt financing costs (interest and Principal Repayments) of the planned capital programme.

Ratio of Financing Costs to Net Revenue Stream				
	2014/15 Actual	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
General Fund	0.7%	1.6%	1.8%	1.9%
HRA	26.7%	23.8%	23.1%	22.1%
Harbour Account	7.3%	6.7%	4.5%	3.2%

2. Capital Expenditure

Definition
Estimated capital expenditure for the next 3 years' capital programme, as set out in the Council's Asset Investment Plan.

Capital Expenditure				
	2014/15 £'000 Actual	**2015/16 £'000 Estimate**	**2016/17 £'000 Estimate**	**2017/18 £'000 Estimate**
General Fund	10,114	30,391	42,218	6,927
HRA	2,286	1,728	1,200	1,200
Harbour Account	61	267	,140	140

3. Gross Borrowing and the Capital Financing Requirement

Definition
The CFR represents the underlying need to borrow for a capital purpose. As the Council should only borrow for a capital purpose, net external borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Capital Financing Requirement				
	2014/15 £'000 Actual	**2015/16 £'000 Estimate**	**2016/17 £'000 Estimate**	**2017/18 £'000 Estimate**
General Fund	8,787	27,071	30,231	30,014
HRA	15,028	13,828	12,742	11,656
Harbour Account	11,318	10,556	9,794	9,032
Total	**35,133**	**51,455**	**52,767**	**50,702**

4. Authorised Limit for External Debt

Definition
Limit for total external debt that should not be breached. This excludes investments and is based on future capital plans and variations in cash flow.

Authorised Limit for External Debt				
	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Operational Boundary	21,563	37,061	38,372	36,307
10% Margin	2,156	3,706	3,837	3,631
Total	**23,719**	**40,767**	**42,209**	**39,938**

5. Operational Boundary for External Debt

Definition

A boundary for total external debt based on the estimate of total projected external debt to be monitored against during the year. It may be breached temporarily for variations in cash flow but a sustained or regular breach would require investigation.

Operational Boundary for External Debt				
	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Borrowing	15,559	31,147	32,554	30,590
Other Long Term Liabilities	6,004	5,914	5,818	5,718
Total	**21,563**	**37,061**	**38,372**	**36,307**

6. Actual External Debt at 31 March 2015

Definition

The actual external debt taken from the unaudited Balance Sheet as at 31st March 2015.

Actual External Debt	
	2014/15 £'000
Borrowing	31,000
Other Long Term Liabilities	6,004
Total	**37,004**

7. Upper limit on Interest Rate Exposures

Definition
Ranges within which the Council will manage its exposures to fixed and variable rates of interest. Whilst the Council could obtain more favourable interest rates with a variable rate, it increases the longer term risk of rates rising beyond a fixed rate. It is calculated as a percentage of total net outstanding principal sums of debt.

	2014/15 Estimate £'000	2015/16 Indicative £'000	2016/17 Indicative £'000	2017/18 Indicative £'000
Fixed interest rate exposures	100%	100%	100%	100%
Variable interest rate exposures	40%	40%	40%	40%

8. Maturity Structure of Borrowing

Definition
Upper and lower limits to assist the Council to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time. This is the fixed rate debt maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit	Upper Limit
Under 12 months	0%	25%
12 months and within 24 months	0%	30%
24 month and 5 years	0%	50%
5 year and within 10 years	0%	70%
10 years and above	0%	100%

CIPFA Code of Practice

5.01 The CIPFA Code of Practice for Treasury Management in the Public Services 2011 states as a key principle, "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

5.02 The following four clauses as recommended by the CIPFA Code were adopted by the Council on 21st March 2012 (Min Ref: 25/12). These clauses reinforce the Code's key principle for effective management and control. As per the CIPFA Code it is recommended that these clauses are reviewed annually.

Clauses

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

   The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

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

3. Shetland Islands Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Executive Manager – Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates the Policy and Resources Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy Statement

6.01 As part of the adoption of the CIPFA Code of Treasury Management in the Public Services the Council is required to produce and approve a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities. This policy statement follows a form of words as recommended by CIPFA in its Code of Practice for Treasury Management in the Public Services, and is subject to annual review.

6.02 The Shetland Islands Council defines its treasury activities as:

> "The management of the 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".

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

6.04 The Shetland Islands Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

6.05 The Prudential Code 2009 removed limits on Council's on borrowing to finance capital expenditure, though this is balanced by additional responsibility to act prudently, and to take account of affordability when making decisions on borrowing. The Shetland Islands Council in compliance with the Prudential Code has set borrowing indicators at section 4.08.

6.06 All investments are held for the purpose of achieving an investment return. To this end all investments are managed in a way that minimises the risk to the capital sum, and optimises the return on the investments consistent with those risks.

Statement of Treasury Management Practices

7.01 The Council Adopted the CIPFA Code of Treasury Management in the Public Services on the 21 March 2012 (Min Ref: 25/12), along with this code were four clauses, which were also formally adopted. Within these clauses the following was stated that this organisation will create and maintain, as the corner stones for effective treasury management, suitable treasury management practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities."

7.02 The following TMP's are recommended by CIPFA as relevant to an organisations treasury management powers and the scope of its treasury management activities.

TMP1 Treasury Risk Management

The Executive Manager – Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting Requirements and Management Information Arrangements*.

In respect of each of the following risks the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1. Credit and Counterparty Risk Management

The risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources.

This Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques and listed in the schedule to this document.

2. Liquidity Risk Management

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

3. Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

This Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with TMP6 reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

4. Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Legal and Regulatory Risk Management

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

This Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

This Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.

6. Fraud, Error and Corruption and Contingency Management

The risk that a Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This Council will ensure that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

7. Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect the Council from the effects of such fluctuations.

TMP2 Performance Measurement

This Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. There will be regular review of the scope for potential improvements.

TMP3 Decision-Making and Analysis

This Council will maintain full records of its major treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 Approved Instruments, Methods and Techniques

This Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Treasury Risk Management.

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

This Council considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the reduction of risk of fraud and error and for the pursuit of optimum performance that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with the implementing and controlling of these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

If the Council intends as a result of lack of resources or other circumstances to depart from these principles, the Executive Manager – Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.

The Executive Manager – Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. They will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Executive Manager – Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

TMP6 Reporting Requirements and Management Information Arrangements

This Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Executive Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices.

TMP7 Budgeting, Accounting and Audit Arrangements

The Executive Manager – Finance will prepare, and this Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute and regulation, together with such information as will demonstrate compliance with TMP1 Treasury Risk Management, TMP2 Performance Measurement, and TMP4 Approved Instruments, Methods and Techniques.

The Executive Manager – Finance will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

This Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force.

This Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Executive Manager – Finance, and will be aggregated for cash flow and investment management purposes. Cash Flow projections will be prepared on a regular and timely basis to ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1.2) Liquidity Risk Management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 Money Laundering

This Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Training may also be provided on the job and it will be the responsibility of the Executive Manager – Finance to ensure that all staff under their authority receives the level of training appropriate to their duties. This will also apply to those staff who, from time to time cover for absences from the treasury management team. The Executive Manager – Finance will recommend and implement the necessary arrangements.

TMP11 Use of External Service Providers

This Council recognises that responsibilities for treasury management decisions remain with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such services providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed and properly agreed, documented, and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Executive Manager – Finance, and details of the current arrangements are set out in the schedule to this document.

TMP12 Corporate Governance

This Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This Council has adopted and has implemented the key principles of the CIPFA Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Manager – Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Executive Manager – Finance will maintain, separate from this document, schedules specifying the systems and routines to be employed and the records to be maintained to ensure adherence to these principles.