Strategy Review

1. Definition of Treasury Management

1.1 Treasury management is defined as the management of the organisation's investments and cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks.

1.2 Within the North east of Scotland Transport Partnership (NESTRANS), treasury management covers:

1.2.1 The day-to-day monitoring and management of the Partnership's cashflows undertaking short term investment as required. "Short term" relates to activities within treasury management of less than 365 days. The objectives of day-to-day management of cashflows is to maximise investment opportunities through detailed forecasting and monitoring of interest rate trends and risk assessment by optimising investment returns using a list of approved organisations for investment.

1.2.2 The Partnership has borrowing powers however does not intend to utilise in 2015/16.

1.3 Operational treasury activities are undertaken by Aberdeenshire Council.

3. Prospects for Interest Rates and the UK Economy

3.1 The Bank Rate (formerly known as Base Rate) is influenced by a range of factors. The two key areas that the Bank of England's Monetary Policy Committee (MPC) takes into account when setting the Bank Rate are the government inflation targets and the growth in the economy.

3.2 Interest rates will be dependant on the strength of the UK economic recovery and that of its main trading partners (US and Europe), around which there is still uncertainty.

4. Treasury Limits for 2015/16

4.1 It is recommended good practice for the Partnership to set treasury operational limits as part of this strategy to reduce risk.

6. Annual Investment Strategy

6.1 NESTRANS maintains only temporary, short term investments and investments will accordingly be made with reference to cash flow requirements. It will be the Partnership's objective to have a closing bank balance as close as possible to zero each day, as this maximises the value that the Partnership derives from its cash position. The bank account currently pays 0% interest.

6.2 The proposed Investment Policy for 2015/16 governing these activities is detailed in Appendix B,

6.3 Whilst the policy focuses on credit ratings these are only the starting point when considering investment risk and wide ranging market data and information is reviewed regularly by the Finance Division. This Policy has been reviewed in light of current

economic climate and the recommendation within the new The Treasury Management Code that Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.

7.4 Against this background, caution will be adopted with the 2015/16 treasury operations. The Treasurer will monitor the interest rates and adopt a practical approach to any changing circumstances.

8. Risk Management

8.1 The revised CIPFA Code of Practice on Treasury Management in Local Authorities advocated that the Board's appetite for risk must be clearly identified within the strategy report. The role of risk management was further codified within the Local Government Investments (Scotland) Regulations 2010 (the Investment Regulations) and the associated consent to invest issued by Scottish Ministers.

8.2 Sound Corporate Governance requires appropriate regulation, monitoring and control of these activities to minimise risk exposure, by instilling risk awareness in the policy and procedures of the Partnership. Risk associated with treasury management practices and policies are considered throughout this report.

10. Reporting and Formal Monitoring

10.1 The Code of Practice for Treasury Management by Local Authorities (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), states that the performance of the treasury management function should be reviewed at least twice per annum. To fulfil this requirement a report will be submitted to the Board.

11. Use of Treasury Advisors

11.1 Responsibility for risk management and control in relation to treasury management lies with NESTRANS and cannot be delegated to any outside organisation; however the Partnership has a Service Level Agreement with Aberdeenshire Council who assist in the undertaking of treasury management activities.

APPENDIX B

Annual Investment Strategy

1. Purpose of Policy

1.1 The annual investment strategy defines the parameters by which investment activities are permitted to be undertaken. The policy is reviewed annually by NESTRANS.

2. Background

2.1 Objectives of Investment Activities

2.1.1 The primary objective is to minimise risk and maintain the security of funds and liquidity. Investment opportunities are identified through detailed forecasting and monitoring of interest rate trends, and returns optimised using a list of approved organisations.

2.1.2 The Partnership's investment priorities are: -

(a) the security of capital and

(b) the liquidity of its investments.

2.2 The Nature and Scope of Investments

2.2.1 The Local Government Investments (Scotland) Regulations 2010 permits local authorities to make investments subject to them gaining the consent of Scottish Ministers. The Consent defines Investments as:

(a) All share holding, unit holding and bond holding, including those in a local authority owned company, is an investment
(b) Loans to a local authority company or other entity formed by a local authority to deliver services, is an investment.
(c) Loans made to third parties are investments.
(d) Investment property is an investment.

2.2.2 The need to invest funds can arise as a consequence of the day-to-day management of the Partnership's funds. The cash balances of the Partnership means it is often necessary for it to invest what can be substantial sums of money in the money markets.

2.2.3 The criteria for investment of funds are that the security of the investment is the paramount consideration with return being of secondary importance.

2.3 Regulation

2.3.1 The Local Government Investments (Scotland) Regulations 2010 permits local authorities to make investments subject to them gaining the consent of Scottish Ministers; consent has been issued subject to compliance with the terms of the consent.

2.3.2 The Partnership will have regard to CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA Treasury Management Code).

3. Investment Policy

3.1 The Investment Policy formulated for consideration by the Partnership is as follows:

(a) Investments of funds of the Partnership shall, in individual cases, be subject to the observance of any legal restrictions pertaining to the particular investment, in Sterling and as set out in the Permitted Investment Schedule appended to this policy.

(b) Surplus money in the Partnership's funds may only be advanced to any other UK local authority or government guaranteed institution. In addition to:

1. any bank, financial institution, insurance company or utility company which meets the following criteria:-

(i) It is EU based

(ii) It falls into one of the groups of banks, financial institutions or insurance companies and the institution concerned appears in Aberdeenshire Council's treasury advisors credit rating matrix as approved, specifically a rating of P-1 (or better) from Moody's or a rating of F-1 (or better) from Fitch. Or where the organisations are deemed UK government backed and appear in the credit rating matrix.

(iii) The Partnership's own bankers.

2. any money market fund that meets the following criteria:-

(i) It is a Sterling denominated fund domiciled within the EU as regulated by the Institutional Money Market Funds Association (IMMFA)

(ii) It falls into one of the groups of banks, financial institutions or insurance companies and the institution concerned has a rating of Aaa from Moody's or a rating of AAAmmf from Fitch or a rating of AAAm with Standard & Poor.

A list of approved counterparties will be maintained by the Aberdeenshire Council on our behalf and reviewed on at least a monthly basis.

Table 1: Investment Policy: - Permitted Investments Schedule – Treasury

Investment Category	Name	Minimum Credit Criteria	Liquidity Risk	Market Risk	Limit Per Counter party/ Investee £'s	Maximum Period	Governance Policy
Deposits	Call Accounts	Per Investment Policy	Instant access	none	£1.5m	12 mths	Investment Policy
Deposits	Business Reserve Accounts	Per Investment Policy	Instant access	none	£1.5m	24 mths	Investment Policy
Deposits	Fixed Term Deposits	Per Investment Policy	Term deposit	none	£1.5m	24 mths	Investment Policy
Collective Investment Schemes structures as open ended investment companies	Money Market Funds	Per Investment Policy	Instant access	none	£1.5m	12 mths	Investment Policy

Investment Category	Name	Minimum Credit Criteria	Liquidity Risk	Market Risk	Limit Per Counter party/ Investee £'s	Maximum Period	Governance Policy
Collective Investment Schemes structures as open ended investment companies	Enhanced Money Market Funds (EMMFs)	Per Investment Policy	Today + 2 Days	Minimal - Pooled cash investment vehicle which provides very low market risk. These will primarily be used as liquidity instruments.	£1.5m	12 mths	Investment Policy
Securities Issued or guaranteed by governments	Treasury Bills	Per Investment Policy	Term Deposit/Secondary Market	Yes if not held to term	£1.5m	24 mths	Investment Policy
Deposit	Certificate of Deposits	Per Investment Policy	Term Deposit/Secondary Market	Yes if not held to term	£1.5m	24 mths	Investment Policy

APPENDIX C

Investment Activity

Name	Balance as at 31 March 2014	Balance as at 31 March 2015	Investment Return 2014/15
	£s	**£'s**	**£'s**
Aberdeenshire Council	910,000	0	271
Bank Of Scotland	0	500,000	1,486
Clydesdale Bank	1,500,000	1,075,000	6,050
Royal Bank Of Scotland	1,500,000	0	703
Svenska HandelsBanken	0	1,500,000	1,996
Total	**3,910,000**	**3,075,000**	**10,506**