Appendix B

Treasury Management Strategy Statement and Investment Strategy

2012/13 to 2014/15
Revisions to 2011/12 Strategy

1. Background

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2 The purpose of this TMSS is, therefore, to approve:

- *R*evisions to Treasury Management Strategy and Prudential Indicators for 2011/12
- Treasury Management Strategy for 2012/13
- Annual Investment Strategy for 2012/13
- Prudential Indicators for 2012/13, 2013/14 and 2014/15
- MRP Statement.

1.3 Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.

1.4 As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of its Shadow Executive on 17th Feb 2009.

1.5 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Background

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

2.2 The Authority's current level of debt and investments is set out at ***Annex A***.

2.3 The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

2.4 The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2011/12 Estimate £m	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2104/15 Estimate £m**
General Fund CFR	220.1	239.3	245.6	260.8
HRA CFR**	154.3	154.3	154.3	154.3
Total CFR	374.4	393.6	399.9	415.0
Less: Existing Profile of Borrowing and Other Long Term Liabilities	 -156.2 -23.1	 -155.6 -21.7	 -150.6 -20.3	 -143.0 -18.9
Cumulative Maximum External Borrowing Requirement	**195.1**	**216.3**	**229.0**	**253.1**
Usable Reserves	**-9.0**	**-10.9**	**-12.8**	**-14.7**
Cumulative Net Borrowing Requirement/(Investments)	**186.1**	**205.4**	**216.2**	**238.4**

** This figure reflects the potential increase on account of Housing Reform.

2.5 Table 1 shows that the capital expenditure plans of the Council cannot be funded entirely through internal resources and the Council will need to fund its capital expenditure through external borrowing, however where possible the Council will use it internal resource.

3. Self-Financing of Housing

3.1 The reforms involve a removal of the housing subsidy system by offering a one-off reallocation of debt. The settlement of the reallocation is expected to take place on 28th March 2012 and will result in the Council having to increase its debt to fund the settlement of approximately £159m. The specific borrowing amount and terms have been determined by the Council in conjunction with the advice of its treasury advisers.

In ***Annex B*** revisions are made to the Prudential Indicators for 2011/12 to reflect the increase in borrowing in relation to the self-financing settlement.

4. Interest Rate Forecast

4.1 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at ***Annex C***. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

5. Borrowing Strategy

5.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in ***Annex C*** indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Council's wider financial position.

5.2 As indicated in Table 1, the Council has a gross and net borrowing requirement and will be required to borrow up to £216.3m in 2012/13. Where possible the Council will use its balances and reserves to avoid the need for external borrowing, by essentially lending its own surplus funds to itself to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances. The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;

- Interest rate and refinancing risk;
- Borrowing source.

5.2 Subject to final guidance from CIPFA, the Council intends to manage its HRA debt portfolio together with its General fund debt portfolio (the one pool approach) so financing costs for all debt will be averaged out. In total the estimated interest payments for general fund and HRA debt in 2012/13 is around £10.5m and the estimated interest receipts for 2012/13 is £0.8m.

6. Sources of Borrowing and Portfolio implications

6.1 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Authority will keep under review the following borrowing sources:

- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

6.2 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

6.3 The Authority has £13.5m exposure to LOBO loans (Lender's Option Borrower's Option) all of which can be "called" within 2012/13. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower 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.

Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

7. Debt Rescheduling

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

7.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertaken meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

7.3 Borrowing and rescheduling activity will be reported to the Executive in the Annual Treasury Management Report and the regular treasury management reports presented to the Customer &Central Services Overview and Scrutiny Committee.

8. Annual Investment Strategy

8.1 In accordance with Investment Guidance issued by the CLG and best practice the Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.

8.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

8.3 Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Council and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

8.4 The types of investments that will be used by the Council and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	×

8.5 A number of changes have been implemented to investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

8.6 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in ***Annex D***.

It remains the Council's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

It is the Councils intention to adopt the new credit rating criteria for the remain of 2011-12 on approval of this Strategy.

8.7 **Council's Banker** – The Council banks with NatWest. On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Councils intention that ev*en if the credit rating* of NatWest *falls* below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

9. Investment Strategy

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

9.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

9.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

9.4 <u>Collective Investment Schemes (Pooled Funds)</u>:

The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

9.5 Investments in pooled funds will be undertaken with advice from Arlingclose Ltd. The Authority's current investments in Pooled Funds are listed in ***Annex E***; their performance and continued suitability in meeting the Council's investment objectives are regularly monitored.

10. The Use of Financial Instruments for the Management of Risks

10.1 Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

10.2 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

11. Balanced Budget Requirement

11.1 The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

12. 2012/13 MRP Statement

12.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

12.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

12.3 In 2012/13: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing.

Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Council chooses).

There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

12.4 MRP Statement - The Authority will apply Option 1 in respect of supported Non-HRA capital expenditure funded from borrowing and Option 3 in respect of unsupported Non-HRA capital expenditure funded from borrowing. If the Council ever proposes to vary this MRP Statement during the year, a revised statement will be put to Full Council at that time.

And

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

13. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

13.1 The Portfolio Holder for People, Finance and Governance will report to the Full Council on treasury management activity / performance and Performance Indicators as follows:

- Mid year against the strategy approved for the year.
- The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- Customer & Central Services Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

14. Other Items

14.1 Training

CIPFA's Code of Practice requires the *responsible officer* to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

The Council will organise training for members and staff with Arlingclose and any other suitable organisations to issue relevant needs are meet

14.2 Investment Consultants/Treasury Advisors

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

14.3 The Council external advisor on Treasury Management is Arlingclose who provide information advice and assistance in all areas of treasury. The Council has a close working relationship and are in contact with their advisors on a regular basis (weekly) and if needs be daily. A detailed scheduled of services is listed within the contract.

This contract is subject to review every three years and will be due for renewal 31.3.12 with the option to roll over yearly.

Annex A – Existing Investment & Debt Portfolio Position (Section 2.2)

	31/10/2011 **Actual Portfolio** **£m**
External Borrowing:	
Fixed Rate – PWLB	107.1
Fixed Rate – Market	13.5
Variable Rate – PWLB	35.6
Variable Rate – Market	0.0
Total External Borrowing	156.3
Other Long Term Liabilities:	
- PFI	18.5
- Finance Leases	4.6
Total Gross External Debt	179.3
Investments:	
Managed in-house	
- Short-term monies (Deposits/ monies on call /MMFs)	51.9
- Long-term investments	0.0
Managed externally	
- Pooled Funds *(Lime Fund)*	4.7
Total Investments	56.6

Annex B
Revisions to 2011/12 Prudential Indicators and Prudential Indicators for 2012/13 – 2014/15

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Chief Finance Officer reports that the authority had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed 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.

Capital Expenditure	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Non-HRA	39.5	78.2	**82.2**	51.2	34.9
HRA	4.7	5.1	**6.1**	10.5	10.2
Total	**44.2**	**83.2**	**88.3**	**61.7**	**45.1**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Capital receipts	7.7	9.0	**11.2**	12.2	6.0
Government Grants	17.9	52.3	**46.2**	26.5	7.2
Major Repairs Allowance	3.8	4.0	**0.0**	0.0	0.0
Revenue contributions	0.9	0.9	**5.9**	10.3	10.0
Total Financing	30.4	66.2	**63.4**	48.9	23.2
Supported borrowing	0.0	0.0	**0.0**	0.0	0.0
Unsupported borrowing	13.8	17.1	**24.9**	12.7	21.9
Total Funding	13.8	7.1	**24.9**	12.7	0.0
Total Financing and Funding	**44.2**	**83.2**	**88.3**	**61.7**	**45.1**

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2011/12 Approved %**	**2011/12 Revised %**	**2012/13 Estimate %**	**2013/14 Estimate %**	**2014/15 Estimate %**
Non-HRA	7.61	5.53	**6.33**	7.21	8.05
HRA*	0.6	0.89	**17.16**	16.37	15.61
Total	**6.76**	**4.98**	**7.71**	**8.42**	**9.09**

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Non-HRA		220.1	**239.3**	245.6	260.8
HRA*		154.3	**154.3**	154.3	154.3
Total CFR		**374.4**	**393.6**	**399.9**	**415.0**

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2011	£m
Borrowing	156.2
Other Long-term Liabilities	23.1
Total	**179.3**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2011/12 Approved £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Increase in Band D Council Tax	10.4	**17.96**	24.87	32.11
Increase in Average Weekly Housing Rents	0.12	**0.22**	0.53	0.84

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council’s existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Borrowing	242	446	**477**	484	501
Other Long-term Liabilities	30	28	**33**	33	33
Total	**272**	**474**	**509**	**516**	**534**

8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Chief Finance Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Full Council

Operational Boundary for External Debt	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Borrowing	232	428	**459**	466	483
Other Long-term Liabilities	25	25	**30**	30	30
Total	**257**	**453**	**489**	**496**	**513**

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Shadow Executive meeting on the 17th Feb 2009

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Gross and Net Debt:

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

Gross and Net Debt	**2011/12 Estimated £m**	**2012/13 Authorised £m**	**2013/14 Authorised £m**	**2014/15 Authorised £m**
Outstanding Borrowing (at nominal value)	334.7	**354.6**	359.7	365.3
Other Long-term Liabilities (at nominal value)	21.7	**20.3**	18.9	17.8
Gross Debt	356.4	**374.9**	378.7	383.1
Less: Average Investments	52.2	**52.3**	52.3	52.4
Net Debt	**304.2**	**322.6**	**326.4**	**330.7**

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

11.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

Guidance note on quantum of acceptable volatility...

	Existing level at 31/03/11 %	**2011/12 Approved %**	**2011/12 Revised %**	**2012/13 Estimate %**	**2013/14 Estimate %**	**2014/15 Estimate %**
Upper Limit for Fixed Interest Rate Exposure	77.2	100	100	**100**	100	100
Upper Limit for Variable Interest Rate Exposure	22.8	35	35	**35**	35	35

11.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing:

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

12.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level at 31/03/11 %	Lower Limit for 2012/13 %	Upper Limit for 2012/13 %
under 12 months	0.54	0	20
12 months and within 24 months	4.18	0	20
24 months and within 5 years	3.65	0	60
5 years and within 10 years	0.00	0	100
10 years and within 20 years	26.63	0	100
20 years and within 30 years	2.09	0	100
30 years and within 40 years	0.54	0	100
40 years and within 50 years	57.16	0	100
50 years and above	5.22	0	100

13. Credit Risk:

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

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

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

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

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

14. Upper Limit for total principal sums invested over 364 days:

14.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
	25	**25**	**25**	**25**	**25**

Annex C – Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.25	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.20	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.25	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.
- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.

- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

Annex D – Recommended Sovereign and Counterparty List (Section 8)

Group Limits *- For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.*

In the event the Council decides to borrow for its HRA settlement prior to 28th March, following advice from Arlingclose, the Council delegates powers to its Chief Finance Officer to distribute monies between its counterparty list, monies which may result in exceeding the monetary value below until the settlement is made.

The lending list will be maintained on an operational basis within the Council's Treasury Management Practices and Schedules document and day-to-day treasury operations manual.

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limit £m**
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	15
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	15
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	15
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	15
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	15
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	15
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	15
Term Deposits / CDs / Call	UK	NatWest (RBS Group)	25

Accounts			
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	15
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	15
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	5
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	5
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	5
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	5
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	5
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	5
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	5
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	5
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	5
Term Deposits / CDs / Call	Finland	Nordea Bank Finland	5

Accounts			
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	5
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	5
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	5
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	5
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	5
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	5
Term Deposits / CDs / Call Accounts	US	JP Morgan	5

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.*

Annex E – External Collective Investment Scheme Investments (Sections 9.4 – 9.5)

Pooled Funds and Collective Investment Schemes used by the Authority

- Lime Property Fund