Appendix B

Treasury Management Strategy Statement and Investment Strategy

2013/14 to 2015/16 (*and where applicable* **revisions to 2012/13 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. As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of its Council on 29th November 2012

1.3. The purpose of this TMSS is, therefore, to approve:

- (where applicable) revisions to Treasury Management Strategy and Prudential Indicators for 2012/13
- Treasury Management Strategy for 2013/14
- Annual Investment Strategy for 2013/14
- Prudential Indicators for 2013/14, 2014/15 and 2015/16
- MRP Statement

2. Capital Financing Requirement

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This represents the cumulative capital expenditure that has not yet been financed and, together with Usable Reserves, are the core drivers of Treasury Management activities.

2.2 The Authority's currently has £315.5m of debt and £71.9m of investments. This is set out in further detail at ***Annex A***.

2.3 **Money Borrowed in Advance of Spending Need:** The Council's current strategy is to minimise borrowing to below the level of its financing requirement. However, the Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16 if it is 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. Currently the Authority is not planning to borrow in advance of its CFR needs

2.4 The forecast 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

	2012/13 Revised Estimate £M's	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's
General Fund CFR	232.5	261.8	284.1	318.5
HRA CFR	163.6	165.0	165.0	165.0
Total CFR	396.1	426.8	449.1	483.5
Less: Existing Profile of Borrowing**	315.5	308.0	291.6	282.2
Less: Other Long Term Liabilities	17.9	17.1	16.3	15.7
Cumulative Maximum External Borrowing Requirement	**62.6**	**101.7**	**141.2**	**185.6**
Usable Reserves*	**57.0**	**59.0**	**59.3**	**57.9**
Cumulative Net Borrowing Requirement/(Investments)	**5.6**	**42.7**	**81.9**	**127.7**

*Usable reserves includes all General and Earmarked Reserves and HRA Reserves
** Lobos are profiled according to their maturity

3. Interest Rate Forecast

3.1 The Arlingclose interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the moribund outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. Until there is a credible resolution of the problems that affect the Eurozone then the UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.

3.2 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.

4. Borrowing Strategy

4.1 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. 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. The cost of carry is likely to be an issue until 2016 or beyond. As borrowing is often for longer dated periods (anything up to 50 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

4.2 As indicated in Table 1, the Authority has a gross additional borrowing requirement of £101.7m in 2013/14 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. Sources of Borrowing and Portfolio Implications

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

- Internal
- PWLB
- Local authorities

- European Investment Bank *(NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria)*
- Leasing
- Structured finance
- Capital markets (stock issues, commercial paper and bills)
- Commercial banks

5.2 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 significant narrowing in the spread (e.g. by 0.50%) 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.

5.3 The Authority has £13.5m exposure to LOBO loans (Lender's Option Borrower's Option) all of which can be "called" within 2013/14. 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 Authority 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.

6. Debt Rescheduling

6.1 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.

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

- Reduce investment balances and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

6.3 Borrowing and rescheduling activity will be reported to Council in the Annual Treasury Management Report and the regular treasury management reports presented to the Corporate Management Team (CMT)

7. Annual Investment Strategy

7.1 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 is secondary, followed by the yield earned on investments which is a tertiary consideration.

7.2 The Authority and its advisors remain alert for signs of credit or market distress that might adversely affect the Authority.

7.3 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 Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

7.4 The types of investments that will be used by the Authority 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	✓	✓
Investments with Registered Providers	✓	✓
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	✓	✗

7.5 New specified investments will be made within the following limits

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counter-party Limits %/£M's**
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts/Bill	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Counterparties rated at least A- Long Term (or equivalent)	£15m
Councils Banker	UK	Natwest	£25m
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A- Long Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	£5m
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	30%
CNAV -rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value) These are currently AAA	40%
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m

Further details can be found in **Annex D & E**.

7.5 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). Regular advice is provided by Arlingclose on the appropriate duration of deposits and other instruments with specific eligible counterparties.

Other credit characteristics, in addition to credit ratings, that the Authority monitors are listed in section 12 below.

Any institution will be suspended or removed should any of the factors identified give rise to concern. Specifically credit ratings are monitored by the Authority on a daily basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

The countries and institutions that currently meet the criteria for investments are included in ***Annex D***.

7.6 **Authority's Banker** – The Authority banks with NatWest. At the current time, it does meet the Authority's minimum credit criteria. It is the Authority's intention that even if the credit rating of NatWest falls below the Authority's minimum criteria of A- the Authority will continue to bank for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

8. Investment Strategy

8.1 With short term interest rates low for some time, 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.

8.2 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels relating to each counterparty will be set to ensure prudent diversification is achieved.

8.3 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 mitigate operational risk by utilising at least two MMFs. 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. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

8.4 Collective Investment Schemes (Pooled Funds):

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

Investments in pooled funds will be undertaken with advice from Arlingclose Ltd. currently The Authority's has £5m investments in a Pooled property Funds, the Lime Fund which is in listed in ***Annex E***. This is continually monitored and reviewed to ensure it is still meeting the Council's investment objectives.

9. Policy on Use of Financial Derivatives

9.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

9.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

9.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

9.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

10. Housing Revenue Account Self-Financing

10.1 Central Government completed its reform of the Housing Revenue Account (HRA) Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

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

10.3 Loan structures and maturities were discussed and analysed with the Council's Treasury Advisors to fit in with the Council's HRA business plan and strategy, funding costs, as well as the Council's existing treasury management position and risk profile. It was decided that the Council will adopt a two-pool approach in relation to the allocation of debt between the General Fund and HRA.

11. 2013/14 MRP Statement

11.1 The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP). 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.

11.2 The four MRP options available are:

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

(This does not preclude other prudent methods)

11.3 MRP in 2013/14: Option 1 and 2 will be used for the majority of General Fund historic debt particularly that deemed to be supported through the Revenue Support Grant. For large projects where capital expenditure is funded from prudential borrowing Option 3 will be used to provide MRP over the life of the asset to which the borrowing was applied.

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

The Chief Finance Officer will

- Report on a quarterly basis Treasury Management activity/performance to the Corporate Management Team, Corporate Resources Overview and Scrutiny Committee and the Executive.
- Produce an annual outturn report on the treasury activity and prudential indicator performance to Full Council no later than 30th September after the financial year end.
- Produce a Mid year report to Full Council on performance against the approved strategy and prudential indicators

Corporate Resources Overview and Scrutiny Committee will be responsible for the scrutiny of the Annual Treasury Management Strategy.

13. Other Items

13.1 Training

CIPFA's Code of Practice requires 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 adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Treasury staff also attend regular training sessions, seminars and workshops. These ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process.

Council members receive education regarding treasury management as part of their general finance training. Access to additional training is provided where required.

13.2 Treasury Management Advisors

The Authority uses Arlingclose as Treasury Management Advisors and receives an agreed schedule of services which include:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- HRA support

The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically.

Annex A – Existing Investment & Debt Portfolio Position

	30/11/12 Actual Portfolio £M's	30/11/12 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	**221.4**	**3.66**
PWLB - Variable Rate	**80.6**	**0.58**
LOBO Loans	**13.5**	**4.23**
Total External Borrowing	**315.5**	**2.90**
Other Long Term Liabilities:		
PFI	17.7	
Finance Leases	0.6	
Total Gross External Debt	333.8	
Investments:		
Managed in-house		
Short-term investments	67.2	1
Long-term investments		
Managed externally		
Pooled Funds - Lime property fund	4.7	5.3
Total Investments	71.9	
Net Debt	261.9	

Annex B

Prudential Indicators [*where applicable*, revisions to 2012/13 and] 2013/14 – 2015/16

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. Gross Debt and the Capital Financing Requirement:

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

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Chief Finance Officer reports that the Authority had no difficulty meeting this requirement in 2012/13, nor are 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	2012/13 Approved £M's	2012/13 Revised £M's	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's
Non-HRA	78.7	64.3	**80.8**	59.5	75.3
HRA	6.1	6.6	**11.0**	14.8	10.9
Total	**84.8**	**70.9**	**91.8**	**74.4**	**86.2**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	**2012/13 Approved £M's**	**2012/13 Revised £M's**	**2013/14 Estimate £M's**	**2014/15 Estimate £M's**	**2015/16 Estimate £M's**
Capital receipts	11.2	8.7	**1.7**	6.5	12.1
Government Grants	49.4	34.9	**43.8**	23.4	20.7
Major Repairs Allowance					
Use of Negative CFR		6.4			
Revenue contributions	5.9		**10.8**	14.6	10.7
Total Financing	66.5	50.0	**56.2**	44.6	43.5
Supported borrowing					
Unsupported borrowing	18.4	20.9	**35.6**	29.8	42.7
Total Financing and Funding	84.9	70.9	**91.8**	74.4	86.2

The table shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than borrowing. Where possible this will be achieved through internal borrowing.

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	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Non-HRA	7.39	6.09	**7.15**	8.53	10.44
HRA	0.19	14.5	**14.4**	13.9	13.3
Total	**6.47**	**7.2**	**8.1**	**9.3**	**10.9**

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Authority'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 financing.

Capital Financing Requirement	2012/13 Approved £M's	2012/13 Revised £M's	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's
Non-HRA	230.6	232.5	**261.8**	284.1	318.5
HRA	158.0	163.6	**165.0**	165.0	165.0
Total CFR	**388.6**	**396.1**	**426.8**	**449.1**	**483.5**

7. Incremental Impact of Capital Investment Decisions:

7.1 As an indicator of affordability, the table below shows the notional impact of capital investment decisions on Council Tax and Housing Rent levels and represent the impact on these if the financing of the capital programme were to be funded by taxes and rents. 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	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	16.45	**23.29**	31.66	31.12
Increase in Average Weekly Housing Rents	0.21	**0.34**	0.51	0.51

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Authority 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 Authority and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt 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 Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

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

8.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.5 The Operational Boundary links directly to the Authority'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.

	2012/13 Approved £M's	2012/13 Revised £M's	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's
Authorised Limit for Borrowing	422	414.5	**446.7**	462.8	498.2
Authorised Limit for Other Long-term Liabilities	33	25.4	**24.6**	23.8	23.2
Authorised Limit for External Debt	**455**	**439.9**	**471.3**	**486.6**	**521.4**
Operational Boundary for Borrowing	**404**	**404.5**	**436.7**	**452.8**	**483.8**
Operational Boundary for Other Long-term Liabilities	**30**	**22.9**	**22.1**	**21.3**	**20.7**
Operational Boundary for External Debt	**434**	**427.4**	**458.8**	**474.1**	**508.9**

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Authority 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 Council meeting on 29th November 2012

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

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

10.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments)

10.2 The upper limit for variable rate exposure has been set to ensure that the Authority 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

	Existing level at 30/11/12 £	2012/13 Approved %	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's
Upper Limit for Fixed Interest Rate Exposure	74.5	100	**100**	100	100
Upper Limit for Variable Interest Rate Exposure	25.5	35	**40**	40	40

10.3 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.

11. Maturity Structure of Fixed Rate borrowing:

11.1 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.

11.2 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.

11.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

11.4 The maturity of the council's fixed rated borrowing will be profiled in order that no more than 20% of the fixed rated debt matures in any one financial year.

Maturity structure of fixed rate borrowing	**Existing level (or Benchmark level) at 31/03/12 %**	**Lower Limit for 2013/14 %**	**Upper Limit for 2013/14 %**
under 12 months	7.74	0.00	20.0
12 months and within 24 months	1.84	0.00	20.0
24 months and within 5 years	0.00	0.00	60.0
5 years and within 10 years	0.00	0.00	100.0
10 years and within 20 years	46.72	0.00	100.0
20 years and within 30 years	17.72	0.00	100.0
30 years and within 40 years	4.47	0.00	100.0
40 years and within 50 years	21.52	0.00	100.0
50 years and above	0.00	0.00	100.0

12. Credit Risk:

12.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

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

12.3 The Authority 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.

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

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

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

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £M's	2012/13 Revised £M's	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's
	25	25	25	25	25

14. HRA Limit of Indebtedness:

14.1 The purpose of this limit is to report the level of debt imposed on the authority at the time of the implementation of self-financing by the department for communities and Local Government.

	2012/13 Approved £M's	2012/13 Revised £M's	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's	2016/17 Estimate £M's
HRA	165.69	165.0	165.0	165.0	165.0	165.0

Annex C – Arlingclose's Economic & Interest Rate Forecast

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	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	-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
3-month LIBID													
Upside 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
Central case	0.55	0.55	0.60	0.60	0.60	0.70	0.70	0.70	0.75	0.75	0.75	0.75	0.75
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
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	1.10	1.10	1.25	1.25	1.25	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
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	0.25	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	0.80	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20
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	0.50	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	1.90	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20
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	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.75	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
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	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Underlying Assumptions:

- Consumer Price Inflation (CPI) has fallen further to 2.2% from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- Having voted to increase asset purchases (QE) by £50bn in July, the MPC will wait to assess its effectiveness and that of the Funding for Lending Scheme (FLS) which started in August.
- Despite poor underlying growth resulting in much weaker public finances than forecast and a slower pace of fiscal consolidation, the Chancellor is expected to maintain the deficit-cutting strategy in the Autumn Statement.

– The US Federal Reserve has responded to the slowdown in growth and employment with QE3, with large scale asset purchases of $40bn a month until the outlook for the labour market improves substantially. The US public finance ‘fiscal cliff’ nevertheless remains a serious risk unless a political solution is reached soon.

– The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the OMT programme, some progress towards banking union) which has placated markets and curtailed some of the immediate risks. A sustainable solution to the Eurozone crisis is some way off as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

Annex D – Current Recommended Sovereign and Counterparty List as at 31/10/2012

Country/ Domicile	Counterparty	Maximum Counterparty Limit £M's	Maximum Group Limit (if applicable) £M's	Maximum Maturity Limit (term deposits and instruments without a secondary market)*	Maximum Maturity Limit (negotiable instrument)**
UK	Santander UK Plc (Banco Santander Group)	15		2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group)	15	22.5	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group)	15		2 years	5 years
UK	Barclays Bank Plc	15		2 years	5 years
UK	HSBC Bank Plc	15		2 years	5 years
UK	Nationwide Building Society	15		2 years	5 years
UK	NatWest (RBS Group)	25	25	2 years	5 years
UK	Royal Bank of Scotland (RBS Group)	15		2 years	5 years
UK	Standard Chartered Bank	15		2 years	5 years
Australia	Australia and NZ Banking Group	5		2 years	5 years
Australia	Commonwealth Bank of Australia	5		2 years	5 years
Australia	National Australia Bank Ltd (National Australia Bank Group)	5		2 years	5 years
Australia	Westpac Banking Corp	5		2 years	5 years
Canada	Bank of Montreal	5		2 years	5 years
Canada	Bank of Nova Scotia	5		2 years	5 years
Canada	Canadian Imperial Bank of Commerce	5		2 years	5 years
Canada	Royal Bank of Canada	5		2 years	5 years
Canada	Toronto-Dominion Bank	5		2 years	5 years
Finland	Nordea Bank Finland	5		2 years	5 years
Finland	Pohjola	5		2 years	5 years
France	BNP Paribas	5		2 years	5 years

France	Credit Agricole CIB (Credit Agricole Group)	5	7.5	2 years	5 years
France	Credit Agricole SA (Credit Agricole Group)	5		2 years	5 years
France	Société Générale	5		2 years	5 years
Germany	Deutsche Bank AG	5		2 years	5 years
Netherlands	ING Bank NV	5		2 years	5 years
Netherlands	Rabobank	5		2 years	5 years
Netherlands	Bank Nederlandse Gemeenten	5		2 years	5 years
Singapore	DBS Bank Ltd	5		2 years	5 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	5		2 years	5 years
Singapore	United Overseas Bank (UOB)	5		2 years	5 years
Sweden	Svenska Handelsbanken	5		2 years	5 years
Switzerland	Credit Suisse	5		2 years	5 years
US	JP Morgan	5		2 years	5 years

** 2 years is the maximum approved duration for term deposits and non Iliquid investments (those without a secondary market), although in practice the Authority may be investing on a shorter term basis depending on operational advice of the Authority's treasury management adviser.*

** 5 years is the maximum approved duration for negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds, although in practice the Authority may be investing for shorter periods depending on operational advice of the Authority's treasury management adviser.*

This list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools or a new suitable counterparty comes into the market. Alternatively, if a counterparty is downgraded, this list may be shortened.

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

Annex E – Non-Specified Investments

Total non -specified investments are limited to an overall maximum of 25m

Instrument	Maximum maturity	Max £M's of portfolio	Capital expenditure?	Example
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	£25m	No	
Term deposits with local authorities	5 years	£25m	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	5 years	£25m	No	
Gilts	15 years	No limit	No	
Bonds issued by multilateral development banks	15 years	£25m	No	*EIB Bonds, Council of Europe Bonds etc.*
Money Market Funds and Collective Investment Schemes	N/A	N/A	No	*Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund*
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	N/A	N/A	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	These funds do not have a defined maturity date	£10M	Yes	*Way Charteris Gold Portfolio Fund; Aviva Lime Fund*