

Taunton Deane Borough Council

Executive – 14 March 2012

Treasury Management Strategy Statement and Investment Strategy

Report of the Strategic Finance Officer

(This matter is the responsibility of Executive Councillor Williams – Leader of the Council)

1. Executive Summary

- Council debt at the time of writing this report is £9m which will rise on 28th March 2012 by £85.2m due to HRA self-financing
- Short-term interest rates are currently 0.5% and are expected to be at this level for the next financial year.
- The strategy has the preservation of capital as the most important factor in investing taxpayers money
- Borrowing rates are currently low but the cost of carry must be considered before taking on any debt.

2. Background

2.1 The purpose of this Treasury Management Strategy Statement and Investment Strategy (TMSS) is to approve:-

- The Treasury Management Strategy for 2012/2013 (Borrowing and Debt Rescheduling); and
- Use of Specified and Non-Specified Investments.

2.2 The treasury management service is an important part of the overall financial management of the Council's affairs

2.3 The bank base rate fell to 0.5% in March 2009 and has remained at that level ever since. The UK economy is continuing its weak recovery from the 2008/09 recession, with GDP growth forecast to be sluggish throughout much of 2012. Government spending cuts, rising unemployment and uncertain export markets are conspiring to keep demand low, and a "double dip" recession cannot be ruled out. Consumer price inflation, which peaked at 5.2% in September 2011 has fallen as one-off factors like 2010's VAT increase and fuel price rises fall out of the annual comparison.

2.4 During 2011/12, the ratings agencies downgraded several sovereign ratings and individual institutions; the Council has responded by listening to and following advice from our treasury advisors Arlingclose.

3. Treasury Management Strategy Statement (TMSS) and Investment Strategy

3.1 This strategy is written in challenging and uncertain economic times. The current economic outlook has a several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time.
- The timing of any borrowing will need to be monitored carefully; there will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.2 This strategy looks to reduce exposure to risk and volatility at this time of significant economic uncertainty by;

- Considering security, liquidity and yield, in that order.
- Considering alternative assessments of credit strength (see 13.3 of the strategy)
- Spreading investments over a range of approved counterparties.
- Only investing for longer periods to gain higher rates of return where there are acceptable levels of counterparty risk.

3.3 The historically low interest rate situation has led to significant reductions in investment income in the past years which impacts directly on the Council's budget.

3.4 The council's general fund capital financing requirement (CFR) for 2012/13 is £9.1m which is currently funded through internal borrowing. The council is able to borrow funds in excess of the current CFR up to the projected level in 2014/15 of £11.7m. The timing of any borrowing must be considered as mentioned in 3.1 above.

3.5 The strategy includes the Prudential Indicators for the council. These are slightly different to those agreed by Full Council on 21st February 2012 and allow for a larger amount to be invested with counterparties in an contracting list of compliant counterparties.

3.5 Appendix 1 gives the full TMSS.

4. Finance Comments

4.1 This is a finance report and there are no further comments to make.

5. Legal Comments

5.1 There are no legal implications of this report.

6. Links to Corporate Aims

6.1 The TMSS supports the funding of projects as well as the general fund, which in turn support the Corporate Aims.

7. Environmental Implications

7.1 No environmental implications have been identified.

8. Community Safety Implications

8.1 No community safety implications have been identified.

9. Equalities Impact

9.1 After initial screening no Equality Impacts were identified for any specific group

10. Risk Management

10.1 There are both credit and liquidity risk surrounding treasury activities. This strategy looks to minimise the council's exposure to these risks.

11. Partnership Implications

11.1 Southwest One performs the treasury management function on behalf of Taunton Deane Borough Council. Southwest One will adhere to this strategy.

12. Recommendation

12.1 That the Executive approves the Treasury Management Strategy Statement and Investment Strategy outlined in appendix 1.

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Treasury Management Strategy Statement and Investment Strategy

2012/13 to 2014/15

(and where applicable 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:
 - Treasury Management Strategy for 2012/13
 - Annual Investment Strategy for 2012/13
- 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. All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Capital Financing Requirement

- 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 *Appendix 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	9,369	9,181	10,372	11,741
HRA CFR	100,151	100,151	100,151	100,151
Total CFR	109,520	109,332	110,523	111,892
Less: Existing Profile of Borrowing and Other Long Term Liabilities	(142,410)	(142,410)	(143,812)	(145,421)
Cumulative Maximum External Borrowing Requirement	(32,890)	(33,078)	(33,289)	(33,529)
Usable Reserves	11,134	11,452	9,670	5,865
Cumulative Net Borrowing Requirement/(Investments)	(21,756)	(21,626)	(23,619)	(27,664)

2.5 Table 1 shows how the capital expenditure plans of the Authority are currently funded and how it is expected to be funded in the coming years.

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 Authority having:

An increase in debt to fund the settlement of £85.2m. The specific borrowing amount and terms have been determined by the Authority in conjunction with the advice of its treasury advisers.

In *Appendix 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 *Appendix 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 *Appendix 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 Authority’s wider financial position.

5.2 The Authority will adopt a flexible approach to 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.

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 £3m exposure to LOBO loans (Lender's Option Borrower's Option) of which £3m of these 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 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.

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 any rescheduling activity will be reported to the Executive in the Annual Treasury Management Report and the six monthly treasury management report presented to the Executive.

8. Annual Investment Strategy

- 8.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority'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 Authority 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 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	✓	✓
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 *Appendix D*.

It remains the Authority'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.

8.7 **Authority's Banker** - The Authority currently banks with National Westminster. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Authority's minimum criteria National Westminster 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. The Authority will manage the investments within MMFs so that no more than 50% of its total investments are in MMFs.

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.

10.1 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.

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

13.1 Southwest One Ltd will report to the Executive on treasury management activity / performance and Performance Indicators as follows:

- 6 monthly against the strategy approved for the year. Southwest One will produce for the Authority an outturn report on its treasury activity no later than 30th September after the financial year end.
- The Executive will receive reports on 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.

Reviewing and addressing training needs:

Taunton Deane Borough Council trains new members in its finances including treasury management. Refresher financial training is offered which includes treasury management. Our treasury advisors also present to members at Members Briefings. Council staff (including SWOne secondees) attend regular treasury management training.

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.

Taunton Deane Borough Council uses the advice of external contractors. This advice is used to maximise returns on investments whilst retaining certainty over the sum invested. It is also used to ensure that any borrowing is at the best rate available.

The external consultants meet regularly with the s151 officer to review treasury management activities including their advice.

Appendix A - Existing Investment & Debt Portfolio Position (Section 2.2)

	29/02/2012 Actual Portfolio £m
External Borrowing:	
Fixed Rate - PWLB	6
Fixed Rate - Market	3
Variable Rate - PWLB	
Variable Rate - Market	
Total External Borrowing	9
Other Long Term Liabilities:	
- PFI	
- Finance Leases	
Total Gross External Debt	9
Investments:	
<i>Managed in-house</i>	
- Short-term monies (Deposits/ monies on call /MMFs)	13.3
- Long-term investments	1.5
<i>Managed externally</i>	
- By Fund Managers	
- Pooled Funds (<i>please list</i>)	
Total Investments	14.8

Appendix B

Prudential Indicators [revisions to 2011/12 and] 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 s151 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 £'000	2011/12 Revised £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Non-HRA	1,421	8,660	1,794	1,807	2,014
HRA*	4,300	4,300	5,500	7,316	7,316
Total	5,721	12,960	7,294	9,123	9,330

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12	2011/12	2012/13	2013/14	2014/15

	Approved	Revised	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital receipts	487	784	445	0	0
Government Grants	259	4,848	480	0	0
Major Repairs Allowance	3,867	3,938	0	0	0
Revenue contributions	1,108	2,070	6,369	7,721	7,721
Total Financing	5,721	11,640	7,294	7,721	7,721
Supported borrowing	0	550	0	0	0
Unsupported borrowing	0	770	0	1,402	1,609
Total Funding	0	1,320	0	1,402	1,609
Total Financing and Funding	5,721	12,960	7,347	9,123	9,330

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	1.32	0.67	0.86	0.89	1.79
HRA	2.28	3.33	17.05	17.01	16.60
Total	3.6	4	17.91	17.90	18.39

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	12,015	9,369	9,191	10,372	11,741
HRA	14,451	100,151	100,151	100,151	100,151
Total CFR	26,466	23,820	109,332	110,523	111,892

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	12.00
Other Long-term Liabilities	45.42
Total	57.42

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	-0.84	-0.05	-0.05	0.19
Increase in Average Weekly Housing Rents	0	0.11	0.33	0

7.2 The change in Band D council tax and average weekly rents reflects increases/decreases in the provision for Capital Financing Charges.

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	2011/12	2012/13	2013/14	2014/15
	Approved £'000	Revised £'000	Estimate £'000	Estimate £'000	Estimate £'000
Borrowing	40,000	139,200	139,200	139,200	141,200
Other Long-term Liabilities					
Total	40,000	139,200	139,200	139,200	141,200

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 s151 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 Council.

Operational Boundary for External Debt	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
Borrowing	30,000	103,020	103,020	104,422	106,031
Other Long-term Liabilities					
Total	30,000	103,020	103,020	104,422	106,031

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
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The Council approved the adoption of the CIPFA Treasury Management Code at its Executive meeting on 14 th January 2004

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	2012/13	2013/14	2014/15
	Estimated £'000	Authorised £'000	Authorised £'000	Authorised £'000
Outstanding Borrowing (at nominal value)	96,993	96,993	98,395	100,004
Other Long-term Liabilities (at nominal value)	45,417	45,417	45,417	45,417
Gross Debt	142,410	142,410	143,812	145,421
Less: Investments	(6,000)	(6,000)	(6,000)	(6,000)
Net Debt	136,410	136,410	137,812	139,421

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. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid)

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...

Interest Rate Exposures	Existing level or Benchmark level at 31/03/11 %	2011/12 Approved £m/%	2011/12 Revised £m/%	2012/13 Estimate £m/%	2013/14 Estimate £m/%	2014/15 Estimate £m/%
Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	100	100	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)	(100)
Net Fixed Exposure	0	0	0	0	0	0
Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)	(100)
Net Variable Exposure	0	0	0	0	0	0

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 (or Benchmark level) at 31/03/11 %	Lower Limit for 2012/13 %	Upper Limit for 2012/13 %
under 12 months	0-50	0	50
12 months and within 24 months	0-50	0	50
24 months and within 5 years	0-50	0	50
5 years and within 10 years	0-50	0	50
10 years and within 20 years	20-100	20	100
20 years and within 30 years	20-100	20	100
30 years and within 40 years	20-100	20	100
40 years and within 50 years	20-100	20	100
50 years and above	20-100	20	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
	3.5m or 20%	3.5m or 20%	3.5m or 20%	3.5m or 20%	3.5m or 20%

Appendix 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.

Appendix 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.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	3.5m or 20%	5.25m or 20%



Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	France	BNP Paribas	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	France	Société Générale	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	3.5m or 20%	5.25m or 20%
Term Deposits / CDs / Call Accounts	US	JP Morgan	3.5m or 20%	5.25m or 20%

***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.*

Appendix E - External Fund Management Arrangements (section 9.4) and Collective Investment Scheme Investments (Sections 9.6 - 9.7)

Examples

The Authority's funds managed on a segregated discretionary basis by

- Aviva
- Investec Asset Management
- Invesco Asset Management
- Scottish Widows Investment Partnership (SWIP)

Pooled Funds and Collective Investment Schemes used by the Authority
(please amend as appropriate)

- Cazenove UK Corporate Bond Fund
- City Financial Strategic Gilt Fund
- Elite Charteris Premium Income Fund
- Investec short Dated Bond Fund
- Investec Target Return Fund
- Investec UK Alpha Fund
- Payden & Rygel Sterling Reserve Fund
- Prime Rate Sterling Cash Plus Fund
- WAY Charteris Gold Portfolio Fund
- The Local Authorities Mutual Investment Trust - Property Fund
- Lime Property Fund