Supplementary Council Agenda

Epping Forest District Council

Council
Tuesday, 22nd February, 2011

Place:	Civic Offices, High Street, Epping
Room:	Council Chamber
Time:	7.30 pm
Committee Secretary:	Council Secretary: Ian Willett Tel: 01992 564243 Email: iwillett@eppingforestdc.gov.uk

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11. REPORT OF THE CABINET - BUDGETS AND COUNCIL TAX DECLARATION 2011/12 (Pages 3 - 24)

Annexes 7 and 9 attached.

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PART A : ANALYSIS OF MAJOR PRECEPTING AUTHORITIES 2011/12

Annex 7

Authorities	Tax Base No.'s	Precept 2011/12	Council Tax Band D	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
		£	£	£	£	£	£	£	£	£	£
Essex County Council	54,609.2	59,346,548	1,086.75	724.50	845.25	966.00	1,086.75	1,328.25	1,569.75	1,811.25	2,173.50
Essex Police Authority	54,609.2	7,214,968	132.12	88.08	102.76	117.44	132.12	161.48	190.84	220.20	264.24
Essex Fire Authority	54,609.2	3,627,143	66.42	44.28	51.66	59.04	66.42	81.18	95.94	110.70	132.84
District Expenses	54,609.2	8,124,211	148.77	99.18	115.71	132.24	148.77	181.83	214.89	247.95	297.54

PART B : SUMMARY - COUNCIL TAX RATES INCLUDING ALL PRECEPTS 2011/12

Abbess, Berners and Beauchamp Roding	199.7	5,000	25.04	972.73	1,134.86	1,296.98	1,459.10	1,783.34	2,107.59	2,431.83	2,918.20
Buckhurst Hill	5,301.8	367,142	69.25	1,002.21	1,169.24	1,336.28	1,503.31	1,837.38	2,171.45	2,505.52	3,006.62
Chigwell	5,983.1	217,958	36.43	980.33	1,143.71	1,307.10	1,470.49	1,797.27	2,124.04	2,450.82	2,940.98
Epping Town	5,110.8	428,500	83.84	1,011.93	1,180.59	1,349.24	1,517.90	1,855.21	2,192.52	2,529.83	3,035.80
Epping Upland	414.9	11,500	27.72	974.52	1,136.94	1,299.36	1,461.78	1,786.62	2,111.46	2,436.30	2,923.56
Fyfield	410.4	10,423	25.40	972.97	1,135.14	1,297.30	1,459.46	1,783.78	2,108.11	2,432.43	2,918.92
High Ongar	575.0	13,500	23.48	971.69	1,133.64	1,295.59	1,457.54	1,781.44	2,105.34	2,429.23	2,915.08
Lambourne	936.6	29,860	31.88	977.29	1,140.18	1,303.06	1,465.94	1,791.70	2,117.47	2,443.23	2,931.88
Loughton Town	13,038.3	641,200	49.18	988.83	1,153.63	1,318.44	1,483.24	1,812.85	2,142.46	2,472.07	2,966.48
Matching	333.9	10,500	31.45	977.01	1,139.84	1,302.68	1,465.51	1,791.18	2,116.85	2,442.52	2,931.02
Moreton, Bobbingworth and the Lavers	669.1	13,285	19.86	969.28	1,130.83	1,292.37	1,453.92	1,777.01	2,100.11	2,423.20	2,907.84
Nazeing	2,108.1	72,476	34.38	978.96	1,142.12	1,305.28	1,468.44	1,794.76	2,121.08	2,447.40	2,936.88
North Weald Bassett	2,569.2	132,205	51.46	990.35	1,155.40	1,320.46	1,485.52	1,815.64	2,145.75	2,475.87	2,971.04
Ongar Town	2,767.9	193,481	69.90	1,002.64	1,169.75	1,336.85	1,503.96	1,838.17	2,172.39	2,506.60	3,007.92
Roydon	1,326.5	28,821	21.73	970.53	1,132.28	1,294.04	1,455.79	1,779.30	2,102.81	2,426.32	2,911.58
Sheering	1,367.4	31,660	23.15	971.47	1,133.39	1,295.30	1,457.21	1,781.03	2,104.86	2,428.68	2,914.42
Stanford Rivers	364.9	11,700	32.06	977.41	1,140.32	1,303.22	1,466.12	1,791.92	2,117.73	2,443.53	2,932.24
Stapleford Abbotts	512.4	6,638	12.95	964.67	1,125.45	1,286.23	1,447.01	1,768.57	2,090.13	2,411.68	2,894.02
Stapleford Tawney	72.3	1,379	19.07	968.75	1,130.21	1,291.67	1,453.13	1,776.05	2,098.97	2,421.88	2,906.26
Theydon Bois	1,979.7	103,280	52.17	990.82	1,155.96	1,321.09	1,486.23	1,816.50	2,146.78	2,477.05	2,972.46
Theydon Garnon	66.5	970	14.59	965.77	1,126.73	1,287.69	1,448.65	1,770.57	2,092.49	2,414.42	2,897.30
Theydon Mount	108.4	1,507	13.90	965.31	1,126.19	1,287.08	1,447.96	1,769.73	2,091.50	2,413.27	2,895.92
Waltham Abbey Town	8,145.1	769,363	94.46	1,019.01	1,188.85	1,358.68	1,528.52	1,868.19	2,207.86	2,547.53	3,057.04
Willingale	247.2	4,500	18.20	968.17	1,129.54	1,290.90	1,452.26	1,774.98	2,097.71	2,420.43	2,904.52

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Report on the Council's Prudential Indicators for 2011/12 to 2013/14 and the Treasury Management Strategy for 2011/12

This report outlines the Council's prudential indicators for 2011/12 – 2013/14 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators** setting out the expected capital activities;
- The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year;
- The **treasury management strategy statement** which sets out how the Council's treasury service will support the capital decisions taken above;
- The **investment strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009 and the Department for Communities and Local Government (CLG) updated the Investment Guidance is fully incorporated within these reports.

The main changes above increase the Members' responsibility in scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.

One element of the revised CIPFA Treasury Management Code of Practice is that the constitution is amended to identify the appropriate committee be responsible for ensuring effective scrutiny of the treasury management strategy and policies, before making recommendations to Council.

Recommendations;

1. **The Council is recommended to adopt the prudential indicators and limits for 2011/12 to 2013/14 contained within Annex 9a of the report. The main indicators are summarised in the table below:**

	2009/10 Actual	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Capital Expenditure	£13.222m	£11.422m	£13.404m	£9.245m	£7.052m
Capital financing requirement	-£0.784m	-£0.784m	-£0.784m	-£0.784m	-£0.784m
Ratio of financing costs to net revenue stream – General Fund	-3.36%	-1.67%	-2.01%	-3.40%	-4.36%
Ratio of financing costs to net revenue stream – HRA	-3.48%	-1.73%	-2.05%	-3.47%	-4.45%
Incremental impact of capital investment decisions on the Band D Council Tax	N/a	-£0.42	£0.71	£2.33	£3.13
Incremental impact of capital investment decisions on weekly housing rents levels	N/a	£0.11	£1.81	£3.99	£3.98

2. **Members are recommended to approve the Council's Statement on the Minimum Revenue Provision contained within Annex 9a of the report.**
3. **Members are recommended to approve the treasury management strategy for 2011/12 to 2013/14 contained within Annex 9a. The treasury prudential indicators are set out in the tables below;**

	2009/10 Actual	**2010/11 Revised**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**
Authorised limit for external debt	£5.0m	£5.0m	£5.0m	£5.0m	£5.0m
Operational boundary for external debt	£0.5m	£0.5m	£0.5m	£0.5m	£0.5m

Exposure to fixed/variable interest rates	**2011/12 Upper**	**2012/13 Upper**	**2013/14 Upper**
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	50%	50%	50%

Maturity Structure of fixed interest rate borrowing						
	2011/12		**2012/13**		**2013/14**	
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	100%	0%	100%	0%	100%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 years and above	0%	0%	0%	0%	0%	0%
Maximum principal sums invested for 1 year or more	£30 m		£30 m		£30 m	

4. **Members are recommended to approve the investment strategy for 2011/12 contained in the treasury management strategy (Annex 9a), and the detailed criteria included within it, specifically approving:**
    - **The criteria for specified investments (Annex 9a(iii)**
    - **The criteria for non-specified investments (Annex 9a(iv)**

Annex 9(a)

Epping Forest District Council
Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

Contents

Annexes 9a

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 on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

1.2. CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral element to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.4. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Annex 9a(i), the Prudential Indicators and the outlook for interest rates (Annex 9a(ii).

1.5. The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2011-12 (Borrowing - Section 3, Investments - Section 5)
- Prudential Indicators – (NB: the Authorised Limit is a statutory limit)
- MRP Statement – Section 7
- Use of Specified and Non-Specified Investments – Annexes 9a(iii) & 9a(iv)

1.6. The Council approved the adoption of the CIPFA Treasury Management Code on 22 April 2002. The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices. However, the revised Code of Practice has amended the Treasury Management Policy Statement and this was approved at Council on 16 February 2010.

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

2. Balance Sheet and Treasury Position

2.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
General Fund CFR	37.519	37.519	37.519	37.519
HRA CFR	-38.303	-38.303	-38.303	-38.303
Total CFR	-0.784	-0.784	-0.784	-0.784
Balances & Reserves	-50.000	-47.000	-43.000	-37.000
Cumulative Net Borrowing Requirement/(Investments)	-50.784	-47.784	-43.784	-37.784

2.2. The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

2.3. It is a requirement of the Prudential Code to ensure that 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	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Non-HRA	8.511	4.786	6.431	2.370	1.221
HRA	6.956	6.636	6.973	6.875	5.831
Total	15.467	11.422	13.404	9.245	7.052

2.4. Capital expenditure is expected to be financed as follows:

Capital Financing	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Capital receipts	7.720	3.431	5.801	2.024	0.918
Government Grants	0.841	1.398	0.658	0.396	0.353
Major Repairs Allowance	5.143	4.783	4.873	4.775	3.731
Revenue contributions	1.763	1.810	2.072	2.050	2.050
Total Financing	15.467	11.422	13.404	9.245	7.052

Incremental Impact of Capital Investment Decisions:

2.5. As an indicator of affordability the table below 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	2010/11 Approved £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	-0.42	0.71	2.33	3.13
Increase in Average Weekly Housing Rents	0.11	1.81	3.99	3.98

2.6. Reform to the Council Housing Subsidy System: CLG consulted on proposals to reform the council housing subsidy system in July 2010. The consultation proposed a removal of the subsidy system by offering a one-off reallocation of debt. Details of the new system will be announced following the recent Comprehensive Spending Review, and will be introduced in the Localism Bill later this Autumn to enable the new system to start in 2012.

This will require the Council to fund the amount owed in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market. The type of loans taken will be decided on in discussions with the Housing department and the councils' Treasury Advisors.

2.7. The estimate for interest payments in 2011/12 is nil and for interest receipts is £0.667m. The ratio of financing costs to the Council's net revenue stream 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 borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	-2.52	-1.67	-2.01	-3.40	-4.36
HRA	-2.60	-1.73	-2.05	-3.47	-4.45

3. Borrowing Strategy

3.1. The Council's balance of actual gross borrowing plus other long-term liabilities is shown in Appendix A. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

3.2. The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

3.3. 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.

External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Authorised Limit	5.0	5.0	5.0	5.0	5.0
Operational Boundary	0.5	0.5	0.5	0.5	0.5

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

- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues
- Structured finance

3.5. Notwithstanding the issuance of Circular 147 on 20th October following the CSR announcement which increases the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term year Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable

3.6. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintaining stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.

3.7. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Authority's Treasury Advisor and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.

3.8. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. 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.

3.9. The Council's existing level of fixed interest rate exposure is 74% and variable rate exposure is 26%.

Interest Rate Exposure on:	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper Limit for Fixed	100	100	100	100	100
Upper Limit for Variable	50	50	50	50	50

3.10. The limits on the below table are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing; upper and lower limits of each category are required.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/10 %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	0	0	100
12 months and within 24 months	0	0	0
24 months and within 5 years	0	0	0
5 years and within 10 years	0	0	0
10 years and above	0	0	0

4. Investment Policy and Strategy

4.1. Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

4.2. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

4.3. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Annexes 9a(iii) and 9a(iv). The Director of Finance & ICT under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio are covered in the mid-year report to the Audit & Governance Committee.

4.4. Changes to investment strategy for 2011/12 include:

- Term deposits in Sweden
- Maximum duration for new deposits 2 years

4.5. The Council's current level of investments is presented at Annex 9a(i).

4.6. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

4.7. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMO are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

4.8. The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
- Credit Default Swaps (where quoted)
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms/potential support from a well-resourced parent institution
- Share Prices
- Macro-economic indicators
- Corporate developments, news and articles , market sentiment.

4.9. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

4.10. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

4.11. To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix D). The longer-term investments will be likely to include:

- Term Deposits with counterparties rated at least A+ (or equivalent)
- Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

4.12. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. 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	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
	30.0	30.0	30.0	30.0	30.0

5. Outlook for Interest Rates

5.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

6. Balanced Budget Requirement

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

7. 2011/12 MRP Statement

7.1. 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.

7.2. The four MRP options available are:

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

7.3. MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

7.4. The MRP Statement will be submitted to Council before the start of the 2011/12 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

7.5. The Council's CFR at 31st March 2011 is estimated to be negative £0.784m and as such under Option 2 (the CFR Method) there is no requirement to charge MRP in 2011/12.

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

Treasury activity is monitored monthly and reported internally to Director of Finance & ICT.

The Director of Finance & ICT will report to the Finance & Performance Cabinet Committee on treasury management activity and Performance Indicators as follows:
(a) Mid-year against the strategy approved for the year.
(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
(c) The Audit & Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

9. Other Items

Training

CIPFA's Code of Practice requires the Director of Finance & ICT 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.

Investment Consultants

The Council appointed Arlingclose to act as Investment Consultants from 1 May 2010 for a period of three years. Regular meetings are held with Arlingclose to discuss the performance of the Council's investments and any opportunities arising in the market.

Annex 9a(i)

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
External Borrowing: Total External Borrowing	0.0		0.0	0.0	0.0	0.0
Existing long-term liabilities	0.0		0.0	0.0	0.0	0.0
Total Gross External Debt	0.0		0.0	0.0	0.0	0.0
Investments: *Managed in-house* - Short-term monies (Deposits/ monies on call /MMFs) - Long-term investments *(maturities over 12 months)*	-50.5		-50.0	-47.0	-43.0	-37.0
Total Investments	-50.5		-50.0	-47.0	-43.0	-37.0
(Net Borrowing Position)/ Net Investment position	-50.5		-50.0	-47.0	-43.0	-37.0

Annex 9a(ii)

Arlingclose's Economic and Interest Rate Forecast

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Official Bank Rate											
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**2.00**	**2.50**	**2.75**	**2.75**
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.50**	**1.75**	**2.00**	**2.25**	**2.50**	**2.75**	**3.00**	**3.25**	**3.50**	**3.50**	**3.50**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-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
Central case	**2.00**	**2.25**	**2.75**	**3.25**	**3.50**	**3.75**	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-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
Central case	**3.50**	**3.75**	**3.75**	**4.00**	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	**4.25**	**4.50**	**4.75**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-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
Central case	**4.25**	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.50**	**4.50**	**4.50**	**4.50**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow, uneven and more "Square root" than "V" shaped.
- The initial reaction to the CSR is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Gilts will remain volatile as the growth versus headline inflation debate escalates

Underlying assumptions:

- The framework and target announced in the Comprehensive Spending Review to reduce the budget deficit and government debt are the same as announced in June and focuses on how the cuts are to be distributed. The next big fiscal milestone will be the Office Of Budget Responsibility's assessment of the CSR's implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee's meeting suggest an increased likelihood of further Quantitative Easing. Money supply is weak and growth prospects remain subdued. The analysis and projections in November's Quarterly Inflation Report will give the Bank of England the opportunity to re-evaluate the outlook for economic activity and inflation and the fiscal impact of the CSR.
- Consumer Price Inflation is stubbornly above 3% and could remain higher than the MPC has previously forecast.
- The employment outlook remains uncertain, as unemployment remains near a 16 year high at just over 2.4 Million.
- The recently announced Basel III capital/liquidity rules and extended timescales is positive for banks. However, the restructuring of UK bank balance sheets is ongoing and expected to take a

long time to complete, and is a pre-condition for eventual normalisation of credit conditions and bank lending.

- A high savings ratio combined with a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rate of growth despite Q2's strong performance.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases might be required. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high credit quality" as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

"Specified" Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. ** Investments in these instruments will be on advice from the Council's treasury advisor.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long-term minimum: A+(Fitch); A1 (Moody's;) A+ (S&P)
Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	10.0
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	10.0
Gilts	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	10.0
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs	10.0
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	10.0

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

<u>NB</u>

Non-UK Banks - These should be restricted to a maximum exposure of 25-30% per country. This means that effectively all the authority's investments can be made with non-UK institutions should you wish, but it limits the risk of over-exposure to any one country.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	10.0
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	10.0
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	10.0
Term Deposits/Call Accounts	UK	Barclays Bank Plc	10.0
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	10.0
Term Deposits/Call Accounts	UK	HSBC Bank Plc	10.0
Term Deposits/Call Accounts	UK	Nationwide Building Society	10.0
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	10.0
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	10.0
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	10.0
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	10.0
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	10.0
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	10.0
Term Deposits/Call Accounts	Canada	Bank of Montreal	10.0
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	10.0
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	10.0
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	10.0
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	10.0
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	10.0
Term Deposits/Call Accounts	France	BNP Paribas	10.0
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	10.0
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	10.0
Term Deposits/Call Accounts	France	Société Générale	10.0
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	10.0
Term Deposits/Call Accounts	Netherlands	ING Bank NV	10.0

Term Deposits/Call Accounts	Netherlands	Rabobank	10.0
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	10.0
Term Deposits/Call Accounts	Switzerland	Credit Suisse	10.0
Term Deposits/Call Accounts	US	JP Morgan	10.0

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.

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Maximum maturity	Maximum Amount	Capital expenditure?
▪ Deposits with banks and building societies ▪ CDs with banks and building societies	✓ ✓	5 years	£20m	No
▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	10 years	£10m	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	✓ (on advice from treasury advisor)	These funds do not have a defined maturity date	£10m	No

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

Credit Ratings **Annex 9a(v)**

Long-Term Credit Ratings

Long-term credit ratings are set up along a scale from 'AAA' to 'D', and adopted and licensed by Standard and Poor (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, BBB+, BBB, BBB- etc.). Moodys intermediate modifers for each category between Aa to Caa are Aa1, Aa2, Aa3, A1, A2 etc.

Definitions (from S&P)	**Fitch**	**Moody**	**Standard & Poor**
Has extremely strong capacity to meet its financial commitments. Is the highest credit	AAA	Aaa	AAA
Has very strong capacity to meet its financial commitments. It differs from AAA only to a small degree	AA	Aa	AA
Has a strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions	A	A	A
Has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity	BBB	Baa	BBB

Short-Term Credit Ratings

Short-term ratings indicate the potential level of default within a 12-month period.

Definitions (from S&P)	**Fitch**	**Moody**	**Standard & Poor**
Has extremely strong capacity to meet its financial commitments. Is the highest credit rating	F1+	P-1	A-1+
Has strong capacity to meet its financial commitments.	F1	P-2	A-1
Has satisfactory capacity to meet its financial commitments. However, more susceptible to the adverse effects of changes in circumstances and economic conditions	F2	P-3	A-2
Has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity	F3		A-3