Treasury Management Strategy Statement and Investment Strategy

2012/13 to 2014/15

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 Department for Communities & Local Government (CLG) 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
- Prudential Indicators for 2012/13, 2013/14 and 2014/15
- MRP Statement.

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

1.4 As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code on 22 April 2002.

1.5 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	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
General Fund CFR	37.519	31.097	31.097	31.097	31.097
HRA CFR**	141.697	154.318	154.318	154.318	154.318
Total CFR	179.216	185.415	185.415	185.415	185.415
Less: Existing Profile of Borrowing and Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0
Cumulative Maximum External Borrowing Requirement	**179.216**	**185.415**	**185.415**	**185.415**	**185.415**
Usable Reserves	**47.000**	**47.000**	**47.000**	**47.000**	**47.000**
Cumulative Net Borrowing Requirement/(Investments)	**132.216**	**138.415**	**138.415**	**138.415**	**138.415**

** this figure reflects the potential increase/decrease on account of Housing Reform.

2.5 Table 1 shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.

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 £186.2m. The specific borrowing amount and terms will be determined by the Authority in conjunction with the advice of its treasury advisers. This will be based on the draft 30 year financial plan for the HRA approved by Cabinet on 5 December 2011.

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 As indicated in Table 1, the Authority is currently debt free, although the changes to the HRA set out in section 3 will cause the Authority to take on debt before the end of 2011/12. Capital expenditure plans do not currently imply any additional external borrowing requirement in 2012/13.

6. Sources of Borrowing and Portfolio implications

6.1 In conjunction with advice from its treasury advisor, Arlingclose, 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
- Use of Internal Resources

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 If the Council decides to use internal resources (borrowing between the General Fund and Housing Revenue Account) then the average rate of interest earned on the Council's investments will be used as the charge for interest.

7. Debt Rescheduling

7.1 The Authority's debt portfolio could 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 undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

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

7.3 Borrowing and rescheduling activity will be reported in the Annual Treasury Management Report to the Finance & Performance Management Cabinet Committee.

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 are 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 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, including term deposits that are beyond one year.

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, 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 banks with National Westminster Bank. 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 Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

9. Investment Strategy

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

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

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

9.4 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.

9.5 Investments in pooled funds will be undertaken with advice from Arlingclose. The Authority currently has no investments in Pooled Funds.

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.

12.2 The four MRP options available are:

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

NB This does not preclude other prudent methods.

12.3 MRP in 2012/13: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include

Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

12.4 The MRP Statement will be submitted to Authority before the start of the 2012/13 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 Authority at that time.

The Authority's CFR at 31st March 2012 is estimated to become positive as a result of the Housing Subsidy reform settlement. This would normally require the local authority to charge MRP to the General Fund in respect of Non-HRA capital expenditure funded from borrowing. CLG has produced draft regulations intended to mitigate this impact and as such under Option 2 (the CFR method) there is no requirement to charge MRP in 2012/13.

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

13.1 The Director of Finance & ICT will report to the Finance & Performance Cabinet Committee on treasury management activity / performance and Performance Indicators as follows:

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

14. Other Items

14.1 Training

CIPFA's Code of Practice requires the 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.

Training in 2011/12 concentrated on the options for financing the HRA related borrowing. Going forward the emphasis is likely to be on debt management and any opportunities for restructuring.

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.

The authority has appointed Arlingclose as external contractor to provide information and advice on investments and treasury issues. The quality of the service is controlled through regular meetings with Arlingclose.

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

	31/12/2011 Actual Portfolio £m
External Borrowing:	
Fixed Rate - PWLB	
Fixed Rate - Market	
Variable Rate - PWLB	
Variable Rate - Market	
Total External Borrowing	0.0
Other Long Term Liabilities:	
- PFI	
- Finance Leases	
Total Gross External Debt	0.0
Investments:	
Managed in-house	
- Short-term monies (Deposits/ monies on call /MMFs)	48.3
- Long-term investments	0.0
Managed externally	
- By Fund Managers	
- Pooled Funds *(please list)*	0.0
Total Investments	48.3

Appendix B
Prudential Indicators [*where applicable*, revisions to 2011/12 and] 2012/13 – 2014/15

Note : Where revisions are being made to the 2011/12 Prudential Indicators as a result of HRA Subsidy Reform, in particular the Capital Financing Requirement, the Authorised Limit and Operational Boundary and the associated treasury PIs, please highlight these changes in the relevant sections.

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

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Non-HRA	6.431	5.278	5.635	1.193	1.176
HRA	6.973	193.225	12.863	15.067	14.859
Total	**13.404**	**198.503**	**18.498**	**16.260**	**16.035**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Capital receipts	5.801	4.254	4.892	0.890	0.873
Government Grants	0.658	1.029	0.780	0.353	0.353
Major Repairs Allowance	5.160	4.906	7.613	9.117	8.209
Revenue contributions	1.785	2.115	5.213	5.900	6.600
Total Financing	**13.404**	**12.304**	**18.498**	**16.260**	**16.035**
Supported borrowing	0	186.199	0	0	0
Unsupported borrowing	0	0	0	0	0
Total Funding	**0**	**186.199**	**0**	**0**	**0**
Total Financing and Funding	**13.404**	**198.503**	**18.498**	**16.260**	**16.035**

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	0.54	-0.53	-0.03	-3.28	-5.07
HRA	-4.59	1.99	19.11	19.46	18.48

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	37.519	31.097	31.097	31.097	31.097
HRA	141.697	154.318	154.318	154.318	154.318
Total CFR	**179.216**	**185.415**	**185.415**	**185.415**	**185.415**

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	0.0
Other Long-term Liabilities	0.0
Total	**0.0**

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	0.71	0.32	0.72	1.12
Increase in Average Weekly Housing Rents	1.81	9.33	11.90	15.08

8. Authorised Limit and Operational Boundary for External Debt:

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

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

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

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

Authorised Limit for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	200.0	200.0	200.0	200.0	200.0

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 Director of Finance & ICT 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 £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	181.0	187.0	187.0	187.0	187.0

9. Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 22 April 2002.

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

10. Gross and Net Debt:

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

Gross and Net Debt	2011/12 Estimated £m	2012/13 Authorised £m	2013/14 Authorised £m	2014/15 Authorised £m
Outstanding Borrowing (at nominal value)				
Other Long-term Liabilities (at nominal value)				
Gross Debt				
Less: Investments				
Net Debt				

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 *(select as appropriate)* net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments)

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

Interest Rate Exposures	Maximum during 2010/11 %	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	0	0				
Upper Limit for Fixed Interest Rate Exposure on Investments	84.26	(100)	(100)	(100)	(100)	(100)
Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	0	0	e.g. 30			
Upper Limit for Variable Interest Rate Exposure on Investments	37.29	(50)	(75)	(75)	(75)	(75)

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	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100
10 years and within 20 years	0	0	100
20 years and within 30 years	0	0	100
30 years and above	0	0	100

13. Credit Risk:

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

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

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

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

13.4 The only indicators with prescriptive values are 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**
	30.0	**30.0**	**30.0**	**30.0**	**30.0**

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)	10.0	
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	10.0	
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	10.0	
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	10.0	
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	10.0	
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	10.0	
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	10.0	
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	10.0	
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	10.0	
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	10.0	
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	10.0	
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	10.0	
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	10.0	
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	10.0	
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	10.0	

Term Deposits / CDs / Call Accounts	France	BNP Paribas	10.0	
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	10.0	
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	10.0	
Term Deposits / CDs / Call Accounts	France	Société Générale	10.0	
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	10.0	
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	10.0	
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	10.0	
Term Deposits / CDs / 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.*

The current advice supplied by Arlingclose is as follows:

UK Banks and building societies:

1. A maximum maturity limit of 3 months applies to HSBC and Standard Chartered

2. A maximum maturity limit of 1 month to Barclays Bank, Lloyds TSB, Bank of Scotland, Royal Bank of Scotland, National Westminster, and Nationwide Building Society.

3. A maximum maturity limit of overnight applies to Santander UK plc.

European Banks:

All temporarily suspended for new investments.

Non European Banks:

A maximum maturity limit of 3 months applies to Australian, Canadian and US banks that are on our list.

Money Market Funds:

A maximum exposure limit of 10% of your total investment per MMF

Appendix E– HRA Self-financing Principles – Two Pools

Principles

The key principles upon which the allocation of loans should be based are as follows:

- The underlying principle for the splitting of loans, at transition, must be that of no detriment to the General Fund.
- Local authorities are required to deliver a solution that is broadly equitable between the HRA and the General Fund.
- Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control.
- Uninvested balance sheet resources which allow borrowing to be below the CFR are properly identified between General Fund and HRA.

The Council has decided to adopt a two-pool approach in relation to the allocation of debt between the General Fund and HRA.

Transitional Issues

Settlement will take place on 28th March 2012; however, CFR and debt figures will not be finalised until the accounts are closed. As a result of this difference in timing:

- Budgets and treasury management strategies will be compiled based on estimates.
- New Borrowing from 1st April 2012 will be allocated to the relevant GF and HRA debt pools.
- Pre-settlement loans will be frozen at 31st March 2012 will be allocated as soon as final figures are known.

Loan Pools

This authority has decided to adopt a two pool approach.
A *two pool* approach involves splitting loans between the HRA & GF and then allocating new loans to each pool as required. The borrowing undertaken for Housing Self financing will be wholly allocated to the HRA pool. This has been adopted for clarity and transparency. Treasury management decisions on the structure and timing of borrowing will be made independently for the GF and HRA. Interest on loans will be calculated in accordance with proper accounting practices. This will require interest expenditure on external borrowing attributed to HRA loans being allocated to the HRA. Interest expenditure on external borrowing attributed to the General Fund will be allocated to the General Fund.

Transfer of Loans between Debt Pools

The authority's policy on transferring loans between the HRA and GF debt pools is as follows:

- In the case of the HRA/GF being in a position to reduce the CFR to a level lower than the principal outstanding on HRA/GF external borrowing, loans will be transferred between the pools without the need to recognise an internal premium or discount as the interest expenditure charged to the HRA/GF will reduce as a result of the transfer. This will be dependent upon the pool having loans transferred to it having a requirement to fund its CFR.

- If the HRA and GF wish to swap loans as a result of strategic decisions and suitability of their relevant debt structures, this could be undertaken at no internal premium or discount.

NB:

- CIPFA's Guidance Notes to the 2011 Treasury Management Code has referred to instances where the HRA and GF wish to swap loans as a result of strategic decisions and suitability of their relevant debt structures and recognising an internal premium or discount as part of this process. These would be notional amounts and would not relate to physical debt repayments where transactions must be accounted for as Extinguishments or Modifications under proper accounting practices.

- The draft Item 8 Determination applicable from 1st April 2012 currently only permits premiums and discounts to be debited or credited to the HRA in accordance with proper accounting practices.

Internal Borrowing

Where the HRA or GF has surplus cash balances which allow either account to have external borrowing below its level of CFR (internal borrowing), the rate charged on this internal borrowing will be based on the average rate of interest earned on cash balances for the financial year.

Borrowing in Advance

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.

HRA Limit on Indebtedness

Please note that housing authorities should also include the following Prudential Indicator, as required by the revised Prudential Code, issued in November 2011:

HRA Limit on Indebtedness	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
HRA CFR	**141.697**	**154.318**	**154.318**	**154.318**	**154.318**
HRA Debt Cap (as prescribed by CLG)	**203.774**	**186.199**	**186.199**	**186.199**	**186.199**
Difference	**62.077**	**31.881**	**31.881**	**31.881**	**31.881**