CAB2455
FOR DECISION
WARD(S): GENERAL

CABINET - 13 FEBRUARY 2013

THE OVERVIEW AND SCRUTINY COMMITTEE - 18 FEBRUARY 2013

TREASURY MANAGEMENT STRATEGY 2013/14

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB2284 Treasury Management Strategy 2012/13, 8 February 2012

AUD038 Treasury Management Stewardship Report for 2011/12, 25 Sept. 2012

AUD047 Treasury Management Mid-Year Review 2012/13, 4 December 2012

EXECUTIVE SUMMARY:

This report outlines the Council's prudential indicators for 2013/14 – 2015/16 and sets out the expected treasury operations for this period. It fulfils four key reports required by the Local Government Act 2003:

1. The reporting of the **Prudential Indicators** setting out the expected capital activities, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities. The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice;
2. The **Treasury Management Statement**, which sets out how the Council's treasury service will support the capital decisions taken above, in accordance with the CIPFA Code of Practice on Treasury Management;
3. The **Investment Strategy**, which sets out the Council's criteria for choosing investment counterparties and limiting exposure to risk ; and
4. The **Minimum Revenue Provision** Statement in accordance with DCLG Statutory Guidance.

RECOMMENDATIONS: to Cabinet and Council:

1. That the Treasury Management Strategy 2013/14 as set out in this report be approved, including:

   - the adoption of the Prudential Indicators 2013/14 to 2015/16 (see Appendix C) setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Government) and the Treasury Management Prudential Indicators that are now in the CIPFA Treasury Management Code of Practice;

   - the Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP (see para.13); and

   - the Annual Investment Strategy 2013/14 contained in the Treasury Management Strategy (see para. 7).

2. That the Treasury Management Policy Statement, as set out in Appendix G be approved.

3. That it be noted that the Council does not intend to use derivative instruments at this stage, and that any change in this position would require full Council approval (para. 10 refers).

4. That the Strategy be kept under regular review to take account of any changes in the current global economic situation.

To The Overview and Scrutiny Committee:

1. That the Committee considers whether it wishes to make any observations or recommendations to Council on the report.

CABINET - 13 FEBRUARY 2013

THE OVERVIEW AND SCRUTINY COMMITTEE - 18 FEBRUARY 2013

TREASURY MANAGEMENT STRATEGY 2013/14

REPORT OF HEAD OF FINANCE

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 the:

- Treasury Management Strategy for 2013/14;
- Annual Investment Strategy for 2013/14;
- Prudential Indicators for 2013/14, 2014/15 and 2015/16; and the
- Minimum Revenue Provision Statement.

1.3 The Council has borrowed and invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

1.4 As per the requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code under the Constitution, Financial Procedure Rule 5.4. (CAB313, 13 February 2002 refers).

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 Council's Treasury Management activities.

2.2 As at the 31 December 2012 the Council had £156.7m of external debt and investments of £33.8m (see Appendix A).

2.3 Money borrowed in advance of spending need: The Council is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Council is only likely to borrow in advance of need if it is felt that 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 is actually required.

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

Table 1: Balance Sheet Summary Analysis

Forecast as at end of	**2012/13 Original £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
General Fund CFR	4.5	0.1	13.5	31.6	31.5
HRA CFR	166.8	163.4	163.3	165.2	165.8
Total CFR	171.3	163.5	176.8	196.8	197.3
Less: Existing Profile of Borrowing and Other Long Term Liabilities	156.7	158.8	158.5	158.2	157.9
Cumulative Maximum External Borrowing Requirement	**14.6**	**4.7**	**18.3**	**38.6**	**39.4**
Usable Reserves & working capital	11.1	20.9	17.5	17.7	18.6
Cumulative Net Borrowing Requirement/(Investments)	**3.5**	**(16.2)**	**0.8**	**20.9**	**20.8**

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

3 Interest Rate Forecast

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

3.2 The economic and interest rate forecast provided by the Council's treasury management advisor is attached at Appendix D. The Council will reappraise its strategies from time to time in response to evolving economic, political, and financial events.

4 Borrowing Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. The cost of carry is likely to be an issue until 2016 or beyond. As borrowing is often for longer dated periods (anything up to 50 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

4.2 As indicated in Table 1, the Authority has a forecast gross borrowing requirement of £18.3m in 2013/14 but has sufficient balances and reserves to avoid the need for additional external borrowing, except at the year end, which is the Council cash low point (see Appendix B). By essentially lending its own surplus funds to itself the Council is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances. It is possible that the Council's Capital programme will slip, avoiding the need to borrow but if it does not slip the Council will borrow short term.

5 Sources of Borrowing and Portfolio implications

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

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

5.2 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Council's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A significant narrowing in the spread (e.g. by 0.50%) will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

6 Debt Rescheduling

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

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

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

6.3 Borrowing and rescheduling activity will be reported in the Annual Treasury Management Report and the regular treasury management reports presented to the Audit Committee.

7 Annual Investment Strategy

7.1 In accordance with Investment Guidance issued by the CLG and best practice this Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments is secondary, followed by the yield earned on investments which although important, is a tertiary consideration.

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

7.3 Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the Council and are not deemed capital expenditure investments under Statute. Non-specified investments are, effectively, everything else.

7.4 The types of investments that will be used by the Council, whether they are specified or non-specified and the limits to be applied are as follows:

Table 2: Specified and Non-Specified Investments

Investment *	**Specified**	**Non-Specified**	**Counterparty Limit**
Term deposits with banks and building societies	✓	✓	£3m+See Appendix E
Certificates of deposit with banks and building societies	✓	✓	Include in limits above
Term deposits with other UK local authorities (incl. Police & Fire Authorities)	✓	✓	£3m
Local Authority Bills	✓	×	Include in limits above
Debt Management Account Deposit Facility	✓	×	Unlimited
Treasury Bills (T-Bills)	✓	×	Unlimited
Gilts	✓	✓	Unlimited
Bonds issued by Multilateral Development Banks	✓	✓	£3m
AAA rated Money Market Funds	✓	×	£3m per fund and 0.5% of the net asset value of the fund. Limited 10% of investment portfolio per MMF, limit of 50% exposure to MMF as a whole.
Other Money Market and Collective Investment Schemes	✓	✓	£3m per Counterparty
Commercial Paper	✓	✓	£100k

Further details can be found in Appendices E & F.

***** With the exception of the Council's bankers National Westminster Bank counterparty exposure to Banks and Building Societies is limited to 15% of the investment portfolio at the time of the investment.

7.5 Investments with other organisations have been included as a non-specified investment category for 2013-14. This would include investment opportunities with small and medium sized enterprises (SMEs) and other businesses across the UK. Because of the higher perceived credit risk of SMEs, such investments may provide considerably higher rates of return. An external credit assessment will be undertaken and advice from the Council's TM adviser will be sought (where available) before any investment decision is made.

7.6 A number of changes to the Annual Investment Strategy for 2013/14 are proposed:

- Counterparty limits generally are raised from £2m to £3m to reflect the easing of market risk and to give the Council the ability to reduce its investments in Local Authorities to get better returns in the UK Bank/Building Society sector where the available counterparties are limited. This will also assist in being able to cycle longer term investments that will give a better return.

- Multilateral Development Banks are added for the first time to fall in line with Arlingclose's advice. Examples are, European Investment Bank, The World Bank etc, which are fully owned by governments but from time to time issue bonds.

- The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent), except where the UK government has a significant shareholding in which case the minimum long term rating will be BBB (Or equivalent). As detailed in non-specified investments in Appendix F, the Head of Finance will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

- The other credit characteristics, in addition to credit ratings, that the Council monitors are listed in the Prudential Indicator on Credit Risk (PI

12, Appendix C).

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

- The countries and institutions that currently meet the criteria for investments are included in Appendix E.

7.7 **Council's Banker** – The Council banks with National Westminster. At the current time, it meets the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Council's minimum criteria NatWest will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

7.8 ***The limit for NatWest will be £4m with an additional £1m with daily approval by the Head of Finance.***

8 Investment Strategy

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

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

8.3 Money Market Funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Council will also seek to mitigate operational risk by utilising at least two MMFs. The Council 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.

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

8.4 The Council currently holds 422,654 units in the Local Authorities Mutual Investment Trust – Property Fund which it has held for a number of years. In the year to 30 September 2012 the investment made up 4% of the portfolio and provided 35% of investment income. The performance and continued suitability in meeting the Council's investment objectives are regularly monitored.

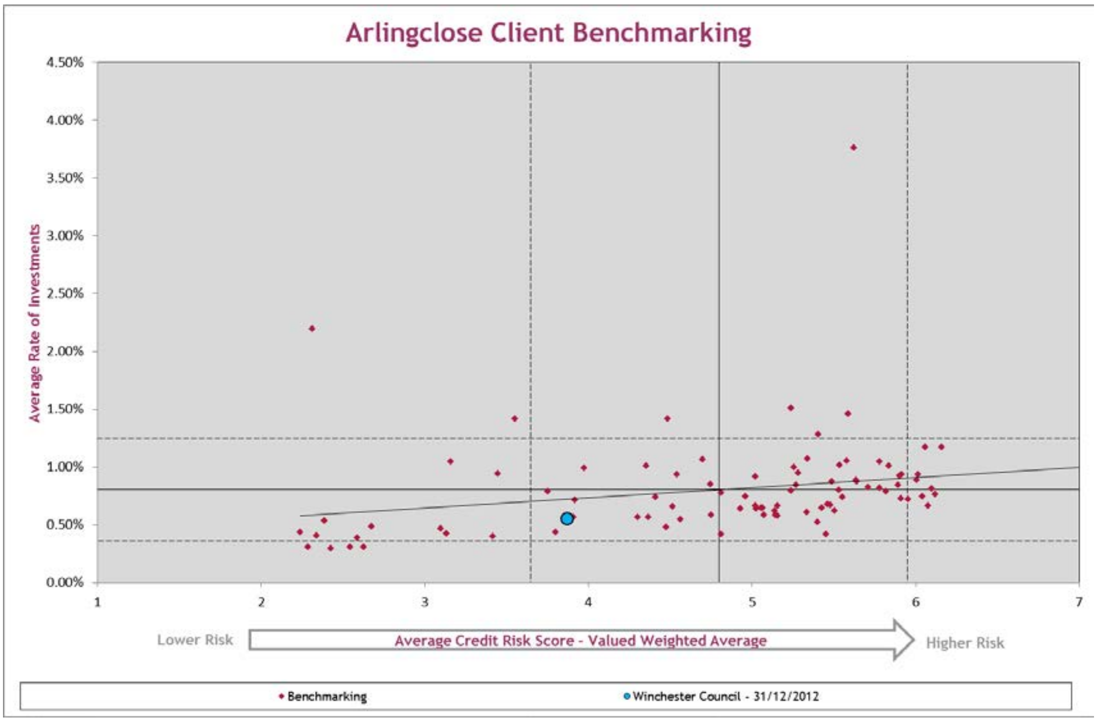
8.5 The LAMIT fund gives Local Authorities an exposure to a diversified portfolio of commercial property throughout the UK, without the issues of maintenance, management and repairs. The fund typically yields in the order of 5.5 - 6% pa. It is an actively managed property fund where they can increase the credit quality of the covenants by purchasing properties with short lease covenants at attractive yields. *Under English regulations this is NOT capital expenditure by it being given explicit exception to Regulation 25 (1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003*. Due its active management style, returns can be volatile as it is more likely to have void periods than a passively managed fund.

8.6 The Council has recently pledged to invest a further £1m in LAMIT. The purchase is subject to a sufficient amount of pledges being made, up to £40m which is available. The selling price is 1.5% below the Net Asset Value of the funds (usually when purchasing LAMIT shares it is at a premium of 5.5% over the Net Asset Value of the fund).

9 Measurement and management of investment risk

9.1 The Council's treasury management consultants carry out a quarterly benchmarking exercise which allocates a credit risk score based on credit ratings and compares the Council with other public sector clients.

Report at 31 December 2012



AAA = 1, A- =7

The score has moved as follows:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
30/09/2011	2.96	AA	2.81	AA
30/12/2011	3.02	AA	3.12	AA
31/03/2012	1.92	AA+	1.69	AA+
30/06/2012	3.23	AA	1.59	AA+
30/09/2012	2.82	AA	1.89	AA+
31/12/2012	3.87	AA-	1.98	AA+

9.2 This demonstrates that the Council is below average risk and achieving a below average return.

9.3 The information forms the basis of a quarterly review meeting with Arlingclose where the risk profile of the Council's portfolio is considered in the context of current and forecast market developments. This is in addition to any daily specific counterparty updates.

10 Policy on Use of Financial Derivatives

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

10.2 The Council does not intend to use derivatives. Any change in this position would require full Council approval.

11 Housing Revenue Account Self-Financing

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

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

11.3 As from 1st April 2012, the Council adopted the two pool approach, the Capital Financing Requirement (CFR) will be calculated for each pool, long-term loans will be assigned to either the HRA or General Fund pool. External Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

11.4 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA. Where the HRA cash balance is positive, interest will be applied at the DMO rate (currently 0.25%).

This is because the General Fund carries the investment counterparty risk; the rate chosen reflects its risk free status. Where the HRA cash balance is negative, the interest charged to the HRA account will be the PWLB 3 month variable rate (and if the GF should borrow internally from the HRA the same rate would apply).

12 Balanced Budget Requirement

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

13 2013/14 MRP Statement

13.1 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 (MRP) 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.

13.2 This relates to non-HRA capital expenditure only. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

13.3 There are four MRP options available:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method
N.B. This does not preclude other prudent methods.

13.4 MRP in 2013/14: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Council chooses).

13.5 The Council is recommended to continue to apply Option 3: The Asset Life Method and to approve the following MRP Statement:-

MRP will be based on estimated life of the assets charged on an equal instalment basis, in accordance with the regulations, in respect of supported and unsupported
Non-HRA capital expenditure funded from borrowing.
And:
MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

13.6 The General Fund Capital Financing Requirement now fully reflects the implementation of Housing Finance Reform on 1 April 2012, and consequently, based on the capital expenditure and reserves forecasts, MRP will not be required until 2014/15.

14 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

14.1 The Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

14.2 The Head of Finance will report to the Audit Committee on treasury management activity/performance and Performance Indicators as follows:

- Half yearly against the Strategy approved for the year, and
- An annual outturn report on its treasury activity no later than 30th September after the financial year end.

15 Other Items

15.1 **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 is undertaken by the Head of Finance on an annual basis.

15.2 **Treasury Management Advisors**

The Authority uses Arlingclose as Treasury Management Advisors and receives the following services:

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

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

15.3 **Investment in Heritable Bank Ltd (in Administration)**

On 16 September 2008 the Council invested £1m in Heritable Bank for a period of 6 months at a rate of 6%. Heritable is a Scottish registered company and a 100% subsidiary of (Old) Landsbanki.

To date the Council has received total distributions of £775,471 from the Administrator including £93,908 in this financial year. The next distribution is expected in July 2013.

The Administrator is forecasting a “base case” recovery of 86% - 90% of the claim. The Council has been approached with an interest to buy the claim at between 86% - 87%. Whilst this would secure immediate funds the Council does not have an immediate cash requirement and after consultation with the Council’s treasury consultants the offer has been rejected.

OTHER CONSIDERATIONS:

16 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

The Treasury Management Strategy supports all tenets of the Sustainable Community Strategy including the core value of being efficient and ensuring value for money.

17. RESOURCE IMPLICATIONS:

The continued low interest rates continue to have a significant impact on the Investment Income budget; for 2013/14 this is £74k. Base rate is forecast to remain at 0.5% throughout to 31 March 2016, the time horizon of this report. A 0.1% change in interest rates would alter investment income by £15k.

18 RISK MANAGEMENT ISSUES

These are considered within the report.

BACKGROUND DOCUMENTS:

Attached below as appendices.

APPENDICES:

Appendix A Investments at 31 December 2012

Appendix B Daily Cash & Short Term Investment Balances - Year to January 2013

Appendix C Prudential Indicators: 2013/14 – 2015/16

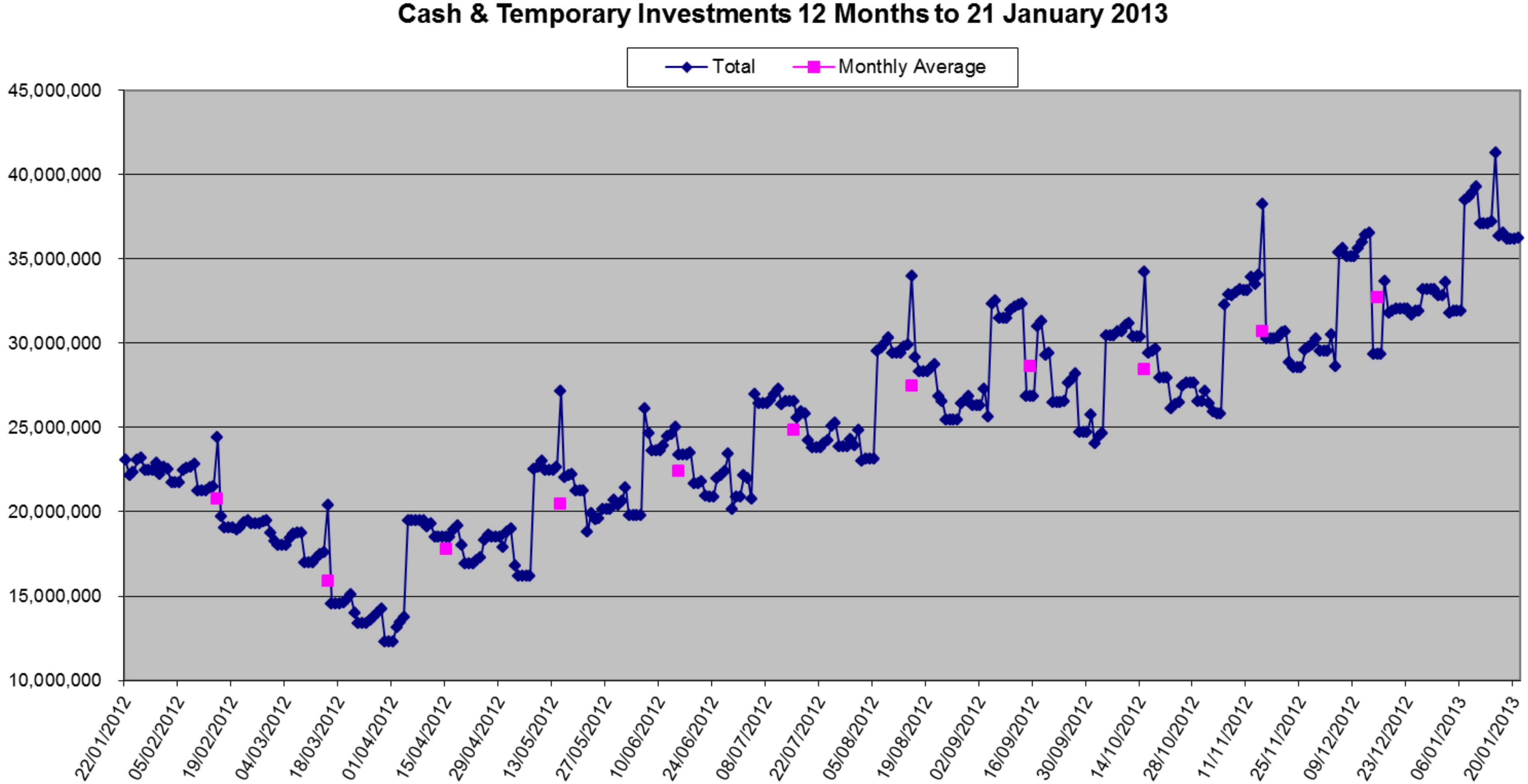
Appendix D Economic & Interest Rate Forecast

Appendix E Current Recommended UK & Counterparty List

Appendix F Non Specified Investments

Appendix G Treasury Management Policy Statement

WINCHESTER CITY COUNCIL TREASURY REPORT	2011/12	2012/13		
	31/03/2012	**31/10/2012**	**30/11/2012**	**31/12/2012**
	£'000	£'000	£'000	£'000
Term Deposits Banks & Building Societies				
(Cash & Cash Equivalents/Short Term Investments)				
Bank of Scotland Call Account (Lloyds Bank Group)	0	1,000	2,000	2,000
Bank of Scotland	0	0	1,000	1,000
Barclays	0	2,000	2,000	2,000
HSBC	0	0	2,000	2,000
Lloyds Call Account	0	2,000	2,000	2,000
National Westminster Bank (Current Account)	1,024	3,132	2,518	2,367
National Australia Bank Ltd	0	2,000	2,000	2,000
Nationwide Building Society	0	2,000	2,000	2,000
TOTAL Banks & Building Societies	**1,024**	**12,132**	**15,518**	**15,367**
Term Deposits UK Local Authorities/LA Bills				
(Short Term Investments)				
Blaenau Gwent Council	2,000	0	0	0
Birmingham City Council	0	2,000	2,000	2,000
Cornwall County Council	0	2,000	2,000	2,000
Dumfries & Galloway Council	2,000	1,000	1,000	1,000
Highland Council	0	2,000	2,000	2,000
Hull City Council	0	1,000	0	0
Leeds City Council	1,000	0	0	0
Mid Lothian Council	2,000	0	0	0
Newcastle upon Tyne Council	0	2,000	2,000	2,000
Peterborough City Council	0	1,000	1,000	1,000
Salford City Council	2,000	2,000	2,000	2,000
TOTAL Deposits UK Local Authorities	**9,000**	**13,000**	**12,000**	**12,000**
DMADF				
(Short Term Investment)				
Debt Management Deposit Facility	500	0	0	0
TOTAL Debt Management Office	**500**	**0**	**0**	**0**
Certificates of Deposit				
Nordea Bank	0	0	1,000	1,000
TOTAL Certificates of Deposit	0	0	1,000	1,000
AAA Money Market Funds				
(Cash & Cash Equivalents)				
CCLA Public Sector Deposit Fund	500	500	0	0
Federated Prime Rate MMF	1,250	1,500	1,000	1,250
IGNIS Sterling Fund	0	0	0	2,000
Morgan Stanley Fund	0	0	0	0
RBS Sterling Fund	0	0	0	1,200
TOTAL AAA Money Market Funds	**1,750**	**2,000**	**1,000**	**4,450**
TOTAL Cash & Cash Equivalents and Short Term Investments	**12,274**	**27,132**	**29,518**	**32,817**
Long Term Investments				
Local Authorities Mutual Investment Trust **	1,000	1,000	1,000	1,000
TOTAL Cash & Cash Equivalents, Short Term & Long Term Investments	**13,274**	**28,132**	**30,518**	**33,817**
Impaired Investments				
Heritable Bank Ltd in administration *	318	252	252	252
TOTAL Cash & Cash Equivalents, Short Term, Long Term & Impaired Investments	**13,592**	**28,384**	**30,770**	**34,069**


Cash & Temporary Investments 12 Months to 21 January 2013
Total
Monthly Average
45,000,000
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
22/01/2012
05/02/2012
19/02/2012
04/03/2012
18/03/2012
01/04/2012
15/04/2012
29/04/2012
13/05/2012
27/05/2012
10/06/2012
24/06/2012
08/07/2012
22/07/2012
05/08/2012
19/08/2012
02/09/2012
16/09/2012
30/09/2012
14/10/2012
28/10/2012
11/11/2012
25/11/2012
09/12/2012
23/12/2012
06/01/2013
20/01/2013

Prudential Indicators 2013/14 – 2015/16

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

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

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

The Head of Finance reports that the Council had no difficulty meeting this requirement in 2012/13, 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.

	2012/13 Approved £million	**2012/13 Revised £million**	**2013/14 Estimate £million**	**2014/15 Estimate £million**	**2015/16 Estimate £million**
Capital Expenditure					
Non-HRA	9.4	6.1	18.0	18.0	1.1
HRA	10.6	8.2	12.3	13.6	13.1
Financed by:					
Non - HRA					
Government grants	0.4	0.4	0.4	0.4	0.4
External contributions	0.8	0.7	1.5	0.0	0.1
Earmarked reserves	0.7	0.5	1.4	0.5	0.4
Major Investment reserve	0.5	0.8	0.3	0.1	0.1
Capital receipts	0.9	0.9	0.5	0.3	0.1
HRA					
Major repairs reserve	3.9	6.3	5.4	5.5	5.7
RCCO	6.0	1.5	6.2	6.1	6.6
Capital Receipts	0.7	0.4	0.7	0.1	0.1
Net financing need for the year	**6.1**	**2.8**	**13.9**	**18.6**	**0.7**

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.

Affordability Indicator	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Non-HRA	(0.0)	(2.1)	(1.0)	1.2	6.3
HRA	23.3	21.4	20.5	19.8	19.0

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.

	2012/13 Approved £million	2012/13 Revised £million	2013/14 Estimate £million	2014/15 Estimate £million	2015/16 Estimate £million
Capital Financing Requirement					
CFR – Non HRA	4.4	0.1	13.5	31.6	31.5
CFR - HRA	166.9	163.4	163.4	165.2	165.8
Total CFR	**171.3**	**163.5**	**176.9**	**196.8**	**197.3**

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 31/03/2012	£m
Borrowing	156.7
Other Long-term Liabilities	2.4
Total	**159.1**

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.

	2012/13 Approved £	2012/13 Revised £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase/(Decrease) in Council Tax - Band D	11.03	(17.18)	(13.17)	(8.15)	22.87
Increase Weekly Housing Rent levels	24.90	(19.15)	(1.56)	2.51	28.25

7.2 The decrease in the Council Tax indicator reflects that last year it was proposed to fund £600 - £700k capital from revenue funds annually. Projects have slipped creating the opportunity to create earmarked reserves to fund projects and there are more capital receipts available, all resulting in a lower proposed direct charge to revenue. The 2015/16 increase is caused by the increase in MRP because of the unfunded capital programme and the cost of borrowing as unfunded capital spend can no longer be funded by internal resources.

7.3 The decrease on the Housing Rents indicator is due to a slippage in the capital programme and an increase in the major repairs reserve, thereby reducing the amount that is funded directly from revenue.

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 £m	**2012/13 Approved**	**2012/13 Revised**	**2013/14 Estimated**	**2014/15 Estimated**	**2015/16 Estimated**
Borrowing	183.3	183.3	176.9	196.8	197.3
Other long term liabilities	5.0	5.0	6.0	6.0	6.0
Total	**188.3**	**188.3**	**182.9**	**202.8**	**203.3**

8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow 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 Head of Finance 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 Cabinet.

Operational Boundary £m	**2012/13 Approved**	**2012/13 Revised**	**2013/14 Estimated**	**2014/15 Estimated**	**2015/16 Estimated**
Borrowing	178.3	178.3	171.9	191.8	192.3
Other long term liabilities	3.0	3.0	4.0	4.0	4.0
Total	**181.3**	**181.3**	**175.9**	**195.8**	**196.3**

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 adopted the CIPFA Treasury Management Code under the Constitution, Financial Procedure Rule 5.4 (CAB313, 13 February 2002 refers)

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

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

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

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

Interest Rate Exposures	Existing level at 31/12/12 £m	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Fixed						
Principal sums outstanding on fixed rate borrowing	156.7	183.3	156.7	176.9	196.8	197.3
Principal sums outstanding on fixed rate investments	0.0	0.0	0.0	0.0	0.0	0.0
Upper Limit for Fixed Interest Rate Exposure	**156.7**	**183.3**	**156.7**	**176.9**	**196.8**	**197.3**
Variable						
Principal sums outstanding on variable rate borrowing	0.0	36.7	0.0	15.0	15.0	15.0
Principal sums outstanding on variable rate investments	33.8	13.3	27.2	15.0	15.0	15.0
Upper Limit for Variable Interest Rate Exposure	**(33.8)**	**23.4**	**(27.2)**	**0.0**	**0.0**	**0.0**

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

10.4 As the Authority’s investments are substantially in excess of its borrowing, these calculations have resulted in a negative figure.

11. Maturity Structure of Fixed Rate borrowing:

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

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

Maturity structure of fixed rate borrowing	Existing level at 31/03/12 £m	Authorised Lower Limit 2012/13 £m	Authorised Upper Limit 2012/13 £m	Lower Limit 2013/14 £m	Upper Limit 2013/14 £m
Under 12 Months	0.0	0.0	36.7	0.0	15.0
12 months and within 24 months	0.0	0.0	20.0	0.0	20.2
24 months and within 5 years	0.0	0.0	40.0	0.0	20.2
5 years and within 10 years	0.0	0.0	60.0	0.0	20.2
10 years and within 20 years	65.0	0.0	120.0	0.0	85.2
20 years and within 30 years	35.0	0.0	183.3	0.0	55.2
30 years and within 40 years	20.0	0.0	183.3	0.0	40.2
40 years and within 50 years	36.7	0.0	183.3	0.0	56.9
50 years and above	0.0	0.0	183.3	0.0	20.2
Total	156.7	0.0	183.3	0.0	176.9

12. Credit Risk:

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

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

12.3 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.

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

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

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

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
1 Year	2.0	2.0	10.0	10.0	10.0
2 - 5 Years			5.0	5.0	5.0

The one year increase is to address the issue of the market defining a year as 365 days not CIPFA's 364 days. Therefore the Council avoids unnecessary contact with banks by making standard 1 year investments. The increase in limit up to 5 years is to address the Housing Revenues cash cycle. The HRA is funding new build out of revenue which inevitable creates a timing issue. The Council could benefit from higher long term rates as the money markets return to nearer normal conditions

14. HRA Limit on Indebtedness

HRA Limit on Indebtedness	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
HRA CFR	166.9	163.4	163.4	165.2	165.8
HRA Debt Cap (as prescribed by CLG)	166.9	166.9	166.9	166.9	166.9
Headroom	0.0	3.5	3.5	1.7	1.1

ECONOMIC AND INTEREST RATE FORECAST

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	**0.40**	**0.40**	**0.40**	**0.45**	**0.45**	**0.50**	**0.50**	**0.50**	**0.55**	**0.55**	**0.55**	**0.60**	**0.60**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	**0.85**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**1.00**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**
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	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	**0.95**	**0.95**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**1.00**	**1.10**	**1.10**	**1.10**	**1.20**	**1.20**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	**2.00**	**2.00**	**2.05**	**2.05**	**2.05**	**2.05**	**2.10**	**2.10**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	**2.90**	**2.90**	**2.90**	**2.90**	**3.00**	**3.00**	**3.00**	**3.00**	**3.10**	**3.10**	**3.10**	**3.10**	**3.10**
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	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	**3.35**	**3.35**	**3.35**	**3.40**	**3.40**	**3.40**	**3.50**	**3.50**	**3.50**	**3.50**	**3.60**	**3.60**	**3.60**
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

Underlying Assumptions:

- UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum was not sustained in Q4 or likely in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.
- Consumer Price Inflation has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.
- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.
- In the absence of large, unexpected decline in growth, Quantitative Easing is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

ECONOMIC AND INTEREST RATE FORECAST

- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.
- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.
- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning the haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

Appendix E - Current Recommended Sovereign and Counterparty List (Paragraphs 7 & 8)

Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Maximum Maturity Limit (term deposits and instruments without a secondary market)[1]	Maximum Maturity Limit (negotiable instrument)[2]
UK	Santander UK Plc (Banco Santander Group)	£3m/15%		2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group) See note 3	£4m/15%	£6m/22.5%	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group) See note 3	£4m/15%		2 years	5 years
UK	Barclays Bank Plc	£3m/15%		2 years	5 years
UK	HSBC Bank Plc	£3m/15%		2 years	5 years
UK	Nationwide Building Society	£3m/15%		2 years	5 years
UK	NatWest (RBS Group) See note 3 & 4	£4m	£6m/22.5%	2 years	5 years
UK	Royal Bank of Scotland (RBS Group) See note 3	£4m/15%		2 years	5 years
UK	Standard Chartered Bank	£3m/15%		2 years	5 years
Australia	Australia and NZ Banking Group	£3m/15%		2 years	5 years
Australia	Commonwealth Bank of Australia	£3m/15%		2 years	5 years
Australia	National Australia Bank Ltd	£3m/15%		2 years	5 years
Australia	Westpac Banking Corp	£3m/15%		2 years	5 years
Canada	Bank of Montreal	£3m/15%		2 years	5 years
Canada	Bank of Nova Scotia	£3m/15%		2 years	5 years
Canada	Canadian Imperial Bank of Commerce	£3m/15%		2 years	5 years
Canada	Royal Bank of Canada	£3m/15%		2 years	5 years
Canada	Toronto-Dominion Bank	£3m/15%		2 years	5 years
Finland	Nordea Bank Finland	£3m/15%		2 years	5 years
Finland	Pohjola	£3m/15%		2 years	5 years
France	BNP Paribas	£3m/15%		2 years	5 years
France	Credit Agricole CIB (Credit Agricole Group)	£3m/15%	£4.5m/22.5%	2 years	5 years
France	Credit Agricole SA (Credit Agricole Group)	£3m/15%		2 years	5 years
France	Société Générale	£3m/15%		2 years	5 years
Germany	Deutsche Bank AG	£3m/15%		2 years	5 years
Netherlands	ING Bank NV	£3m/15%		2 years	5 years
Netherlands	Rabobank	£3m/15%		2 years	5 years
Netherlands	Bank Nederlandse Gemeenten	£3m/15%		2 years	5 years
Singapore	DBS Bank Ltd	£3m/15%		2 years	5 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	£3m/15%		2 years	5 years

Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Maximum Maturity Limit (term deposits and instruments without a secondary market)[1]	Maximum Maturity Limit (negotiable instrument)[2]
Singapore	United Overseas Bank (UOB)	£3m/15%		2 years	5 years
Sweden	Svenska Handelsbanken	£3m/15%		2 years	5 years
Switzerland	Credit Suisse	£3m/15%		2 years	5 years
US	JP Morgan	£3m/15%		2 years	5 years

[1] *2 years is the maximum approved duration for term deposits and illiquid investments (those without a secondary market), although in practice the Authority may be investing on a shorter term basis depending on operational advice of the authority's treasury management adviser*

[2] *5 years is the maximum approved duration for negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds, although in practice the Authority may be investing for shorter periods depending on operational advice of the authority's treasury management adviser.*

[3] *Banks with a significant UK Government share holding have an additional allowance of £1m taking the limit to £4m*

[4] *The Council's Bankers, additional allowance of £1m with the daily approval of the Head of Finance taking the limit to £5m for the Bank and £7m for the Group*

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

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

Appendix F - Non-Specified Investments

Instrument	Maximum maturity	Max %/£M of portfolio	Capital expenditure?	Example
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years		No	
Term deposits with local authorities	5 years		No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	5 years		No	
Investments with banks and building societies which **do not meet** the specified investment criteria (on advice from TM Adviser and authority from S151 Officer)	3 months	£5m per counterparty	No	*Bank falling below criteria specified*
Investments with organisations which **do not meet** the specified investment criteria (subject to an external credit assessment and specific advice from TM Adviser)	5 years	£100k per counterparty	Yes/no[3]	*Small & Medium Enterprises*
Gilts	5 years		No	
Bonds issued by multilateral development banks	5 years		No	*EIB Bonds, Council of Europe Bonds etc.*
Sterling denominated bonds by non-UK sovereign governments	5 years		No	
Money Market Funds and Collective Investment Schemes			No	*Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund*

[3] Depending on the nature of the transaction with the third party

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to the Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council'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."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.