

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

11th April 2011

**TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2011-12 TO 2013-14**

Responsible Portfolio Holder	Councillor Geoff Denaro Portfolio Holder for Finance
Responsible Head of Service	Jayne Pickering, Executive Director Finance and Corporate Resources
Key Decision / Non-Key Decision	

**1. SUMMARY OF PROPOSALS**

- 1.1 To report to the Audit Board on the strategy statement for the treasury management and investments in relation to Bromsgrove District Council to comply with the Local Government Act 2003 and to ensure the Council demonstrates accountability and effectiveness in the management of its funds.
- 1.2 To comply with Treasury Management Best Practice, the Performance Indicators, included in the report have previously been reported to Cabinet on 23rd February 2011. This information is still included in this report to ensure Members are aware of all information relevant to the Strategy Statement.

**2. RECOMMENDATIONS**

- 2.1 The Audit Board recommends to Full Council approval of the strategy detailed at Appendix 1.
- 2.2 The Audit Board will undertake additional scrutiny of the Strategy during 2011/12 to ensure the Council's investments are being managed in a risk free environment.
- 2.3 That the Audit Board notes the Authorised Limit for borrowing at £3,500,000 if required.
- 2.4 That the Audit Board notes the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £1m subject to market conditions.
- 2.5 That the Audit Board recommend to Full Council the approval of unlimited level for investment in Debt Management Account Deposit Facility (DMADF).

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- 2.6 That the Audit Board notes that training for Treasury management has been identified and will be incorporated within the Modern Councillor Programme (Training and Development Events for Members) prioritised with all other needs.

### **3. BACKGROUND**

- 3.1 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 set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

- 3.2 CIPFA has defined Treasury Management as:

*"the management of the organisation's investments, 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."*

- 3.3 The 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. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

- 3.4 In addition the Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable'.

- 3.5 The revised guidance issued in draft on the 16th November 2009 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.

- 3.6 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

**4. KEY ISSUES**

- 4.1 The failing of a number of Icelandic banks and the issue with Northern Rock has highlighted the risks associated with treasury management activities.
- 4.2 The strategy adopted by many local authorities has been to protect capital sums with minimum returns on investments. There are now only a handful of organisations with an F1+ credit rating.
- 4.3 The bank base rate has remained at 0.5% since 5th March 2009.
- 4.4 On 20th October 2010 HM Treasury issued an instruction to the PWLB to increase the interest rate on all new loans by an average of 1% above UK Government Gilts. The new borrowing rate for fixed loans, increased by approximately 0.87% across all maturities, and variable rates by 0.90%.
- 4.5 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, Bromsgrove District Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

**5. FINANCIAL IMPLICATIONS**

- 5.1 The financial implications are contained within the body of the strategy statement at Appendix 1.

**6. LEGAL IMPLICATIONS**

- 6.1 This is a statutory report under the Local Government Act 2003.

**7. POLICY IMPLICATIONS**

- 7.1 None

**8. COUNCIL OBJECTIVES**

- 8.1 Approval of this strategy statement will ensure that the Council invests its resources within a robust and effective framework to deliver a maximum return on investments within a secure environment.

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### **9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS**

9.1 The main risks associated with the details included in this report are:

- *Poor Use of Resources scoring*
- *Poor investment return*
- *Loss of capital due to investing with inappropriate organisations*

9.2 These risks are being managed as follows:

- Poor Use of Resources scoring

Risk Register: *Corporate*

Key Objective Ref No: *1*

Key Objective: *Effective Financial Management*

9.3 The risks associated with the delivery of maximum return within a secure environment have now been addressed in the risk register. The risks and controls in place to mitigate them have been assessed and detailed within the register.

9.4 Current controls to reduce the risk of loss of capital and poor return on investment include:

- Monthly reports from investment managers on performance of funds
- Quarterly reporting to Performance Management Board and Cabinet of financial position on investments
- Monthly updates from treasury advisors in respect of level of status for organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications

### **10. CUSTOMER IMPLICATIONS**

10.1 The effective management of treasury operations will ensure that the management of the public funds is monitored and reviewed in a complaint way to satisfy the public of the use of their financial resources.

### **11. EQUALITIES AND DIVERSITY IMPLICATIONS**

11.1 None as a direct result of this strategy

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**12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT**

12.1 The robust framework that is in place to ensure investments maximise return within a secure environment support the demonstration that the Council is providing value for money is the use of its funds available.

**13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY**

13.1 None

**14. HUMAN RESOURCES IMPLICATIONS**

14.1 None

**15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS**

15.1 The performance management implications are detailed in the report.

**16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998**

16.1 None

**17. HEALTH INEQUALITIES IMPLICATIONS**

17.1 None.

**18. LESSONS LEARNT**

18.1 Not applicable

**19. COMMUNITY AND STAKEHOLDER ENGAGEMENT**

19.1 None

**20. OTHERS CONSULTED ON THE REPORT**

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes

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Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Service	Yes
Head of Resources	Yes
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

**21. WARDS AFFECTED**

All

**22. APPENDICES**

Appendix 1 - Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

**23. BACKGROUND PAPERS**

Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

**AUTHOR OF REPORT**

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**Treasury Management Strategy Statement  
and Investment Strategy 2011/12 to 2013/14**

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**Appendices**

- A. **Current and Projected Portfolio Position**
- B. **Interest Rate Outlook: The Council's, Arlingclose's**
- C. **Specified Investments for use by the Council**
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**1. Background**

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

1.2. CIPFA has defined Treasury Management as:

*"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

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

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

1.5. The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2011-12 (Borrowing and Debt Rescheduling - Section 4, Investments - Section 5)
- Prudential Indicators – (NB: the Authorised Limit is a statutory limit)
- MRP Statement – Section 8
- Use of Specified and Non-Specified Investments – Appendices C & D

1.6. As per requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code at its meeting on 17th March 2010. The Council has incorporated the changes from the revised CIPFA Code of Practice (November 2009) into its treasury policies, procedures and practices.<sup>1</sup>

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<sup>1</sup> This Prudential Indicator demonstrates the Council has adopted the principles of best practice in terms of Treasury Management



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

#### **2. Balance Sheet and Treasury Position**

2.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR)<sup>2</sup>, together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
CFR	0	0	0	0.907
Balances & Reserves	5.208	3.190	2.203	2.079
<b>Cumulative Net Borrowing Requirement/(Investments)</b>	<b>5.208</b>	<b>3.190</b>	<b>2.203</b>	<b>1.172</b>

2.2. The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at **Appendix A**. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing<sup>3</sup> (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

#### **Estimates of Capital Expenditure:**

2.3. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

<sup>2</sup> The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

<sup>3</sup> This is a key indicator of prudence and should not exceed the Capital Financing Requirement. As the CFR represents the level of borrowing for capital purposes, and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements.

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<b>Capital Expenditure</b>	<b>2010/11 Approved £m</b>	<b>2010/11 Revised £m</b>	<b>2011/12 Estimate £m</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>
General Fund	2.465	4.568	2.633	1.372	1.131
<b>Total</b>	<b>2.465</b>	<b>4.568</b>	<b>2.633</b>	<b>1.372</b>	<b>1.131</b>

2.4. Capital expenditure is expected to be financed as follows <sup>4</sup>:

<b>Capital Financing</b>	<b>2010/11 Approved £m</b>	<b>2010/11 Revised £m</b>	<b>2011/12 Estimate £m</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>
Capital receipts	1.877	3.573	2.058	0.967	0.224
Government Grants and Contributions	0.588	0.995	0.485	0.405	
Major Repairs Allowance					
Revenue contributions			0.090		
<b>Total Financing</b>	<b>2.465</b>	<b>4.568</b>	<b>2.633</b>	<b>1.372</b>	
Supported borrowing					
Unsupported borrowing					0.907
<b>Total Funding</b>					<b>0.907</b>
<b>Total Financing and Funding</b>	<b>2.465</b>	<b>4.5668</b>	<b>2.633</b>	<b>1.372</b>	<b>1.131</b>

**Incremental Impact of Capital Investment Decisions:**

2.5. As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax. 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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2010/11 Approved £</b>	<b>2011/12 Estimate £</b>	<b>2012/13 Estimate £</b>	<b>2013/14 Estimate £</b>
Increase in Band D Council Tax	0.01	0.19	0.11	0.76

<sup>4</sup> The element to be financed from borrowing impacts on the movement in the Capital Financing Requirement. An increase in the CFR in turn produces an increased requirement to charge MRP in the Revenue Account.

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2.6. The estimate for interest receipts is £68k. The ratio of financing costs to the Council's net revenue stream<sup>5</sup> is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
General Fund	0.56	0.72	0.60	0.93	0.73

### 3. **Borrowing and Rescheduling Strategy**

3.1. The Council's balance of Actual External Debt at 31/01/11 (gross borrowing plus other long-term liabilities) is shown in Appendix A. This Prudential Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

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

Authorised Limit for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	6.5	2.5	3.5	4.5	5.5
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>6.5</b>	<b>2.5</b>	<b>3.5</b>	<b>4.5</b>	<b>5.5</b>

3.3. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

<sup>5</sup> The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

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Operational Boundary for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	5.5	1.5	2.5	3.5	4.5
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>5.5</b>	<b>1.5</b>	<b>2.5</b>	<b>3.5</b>	<b>4.5</b>

- 3.4. The Executive Director of Finance and Resources 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.
- 3.5 The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to reflect the Council's debt and investment activity which is of a short term nature and therefore has a natural exposure to interest rate changes.

	2010/11 Approved £m or %	2010/11 Revised £m or %	2011/12 Estimate £m or %	2012/13 Estimate £m or %	2013/14 Estimate £m or %
<b>Upper Limit for Fixed Interest Rate Exposure</b>	100%	100%	100%	100%	100%
<b>Upper Limit for Variable Interest Rate Exposure</b>	100%	100%	100%	100%	100%

- 3.6 The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced.<sup>6</sup> Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. Any borrowing undertaken by Bromsgrove District Council arises due to cash flow movements and is of a short term nature as such any borrowing undertaken will have a maturity date within 12 months.

<sup>6</sup> This Prudential Indicator 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. The TM Code of Practice (Guidance Notes page 12) recommends that the Maturity Structure of fixed rate borrowing is to be broken down into several ranges if significant debt is held in periods in excess of 10 years.

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<b>Maturity structure of fixed rate borrowing</b>	<b>Lower Limit for 2011/12 %</b>	<b>Upper Limit for 2011/12 %</b>
under 12 months	0.00%	100.0%
12 months and within 24 months	0.00%	100.0%
24 months and within 5 years	0.00%	100.0%
5 years and above	0.00%	100.0%

#### **4 Investment Policy and Strategy**

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

4.2 The Council's investment priorities are:

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

4.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendices C and D. The Executive Director of Finance and Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Audit Board meeting.

4.4 Changes to investment strategy for 2011/12 include:

- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds
- T-Bills
- Local Authority Bills
- Term deposits in Sweden
- Maximum duration for new term deposits 2 years

4.5 The Council's current level of investments is presented at Appendix A.

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

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- 4.7 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)
- 4.8 The Council selects countries and the institutions within them (see Appendix C), for the counterparty list after analysis and careful monitoring of:
- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
  - Credit Default Swaps (where quoted)
  - GDP; Net Debt as a Percentage of GDP
  - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
  - Share Prices (where quoted)
  - Macro-economic indicators
  - Corporate developments, news and articles, market sentiment.
- 4.9 The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.
- 4.10 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.
- 4.11 To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments could be considered against the context of the Council's balance sheet. The longer-term investments will be likely to include:
- Term Deposits with counterparties rated at least A+ (or equivalent)
  - Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

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4.12 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No. 12	Upper Limit for total principal sums invested over 364 days <sup>7</sup>	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
		2.0	2.0	2.0	2.0	2.0

### **5 Outlook for Interest Rates**

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

### **6 Balanced Budget Requirement**

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

### **7 2011/12 MRP Statement**<sup>8</sup>

7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2 The four MRP options available are:

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

<sup>7</sup> Please make allowance within this Indicator for amounts invested for **1 year**, i.e 365/366 days.

<sup>8</sup> The Annual MRP Statement is subject to Council approval and may therefore be reported separately to Council instead of being incorporated into the TMSS.

7.3 The Council's CFR at 31<sup>st</sup> March 2011 is expected to be nil in relation to capital expenditure funded from borrowing and therefore there is no requirement to charge MRP in 2011/12.

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

Treasury activity is monitored quarterly and reported internally to Cabinet and the Performance Monitoring Board. The Prudential Indicators will be monitored through the year by the Executive Director of Finance and Resources and reported as under:

The Executive Director of Finance and Resources will report to the Performance Monitoring Board and Cabinet on treasury management activity / performance and Performance Indicators as follows:

- (a) Quarterly against the strategy approved for the year.
- (b) The Council will produce an outturn report on its treasury activity no later than 30<sup>th</sup> September after the financial year end.
- (c) The Audit Board will be responsible for the scrutiny of treasury management activity and practices.

**9 Other Items**

**Training**

CIPFA's Code of Practice requires the Executive Director of Finance and Resources 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.

Responsibility for the scrutiny of the Treasury Management function will rest with the Audit Board. The Executive Director of Finance and Resources will ensure that adequate training is provided for all relevant Members during the Financial Year.

**Investment Consultants**

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.



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The Council uses external consultants, Arlingclose for information and advice relating to investments. Updated information is received and monitoring undertaken by regular meetings and reports between the Executive Director of Finance and Resources and representatives from Arlingclose.

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APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

This is our current investment portfolio as at 31st January 2011.

	<b>Current Portfolio £m</b>
<b>Investments:</b>	
<i>Managed in-house</i>	
- Deposits and monies on call and Money Market Funds	12.00
- Fixed Term Deposits	10.25
<b>Total Investments</b>	22.25

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### APPENDIX B

#### Arlingclose's Economic and Interest Rate Forecast

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
<b>Official Bank Rate</b>													
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	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75	3.00	3.00	3.00
Downside risk	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
<b>1-yr LIBID</b>													
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	1.65	1.90	2.15	2.40	2.50	2.50	2.75	3.00	3.25	3.50	3.50	3.50	3.50
Downside 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
<b>5-yr gilt</b>													
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	2.75	3.00	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
<b>10-yr gilt</b>													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.90	4.00	4.10	4.25	4.50	4.75	4.75	4.75	4.75	4.75	5.00	5.00	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
<b>20-yr gilt</b>													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.25	5.25	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
<b>50-yr gilt</b>													
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	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50	4.75	4.75	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow and uneven.
- The initial reaction to the CSR is positive, but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

#### Underlying assumptions:

- The framework and targets announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt will be put to the test; meeting the 2010 borrowing target of £149bn will be crucial to the gilt market's confidence in the credibility of the deficit reduction plans.

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- Despite Money Supply being weak and growth prospects remaining subdued, the MPC has gravitated towards increasing rates in the new year as global inflation continues to rise along with household inflation.
- Consumer Price Inflation is stubbornly above 3% and is likely to spike above 4% in the first quarter of 2011 as a result of VAT, Utilities and Rail Fares.
- Unemployment remains near a 16 year high, at just over 2.5 Million, and is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is mainly due to part time work, leaving many with reduced income.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore the outlook for growth.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

**Specified and Non Specified Investments**

**Specified Investments identified for use by the Council**

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

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

“Specified” Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- \*Certificates of deposit with banks and building societies
- \*Gilts: (bonds issued by the UK government)
- \*Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- Local Authority Bills (LA Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

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

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2. *The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.*

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

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

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

New specified investments will be made within the following limits:

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limits %/£m</b>	<b><i>E.g.</i></b>
Term Deposits	UK	DMADF, DMO	No limit	
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit	
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£1m	
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	£1m	
Gilts	UK	DMO	No limit	
T-Bills	UK	DMO	No limit	
LA-Bills	UK	Other UK Local Authorities	No limit	
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	£1m	<i>Standard Life; Goldman Sachs; Prime Rate; RBS; Ignis etc. Aviva VNAV MMF Investec Liquidity Fund</i>
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£1m	<i>Payden &amp; Rygel; Investec Short Bond Fund</i>

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

***NB***

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

***MMFs*** - We emphasise diversification for all investments including MMFs. We advise that, as far as is practicable, clients spread their investments in Money Market Funds between two funds or more.

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

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limit %/£m</b>	<b>Maximum Group Limit (if applicable) %/£m</b>
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£1m	£1.5m
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£1m	£1.5m
Term Deposits/Call Accounts	UK	Nationwide Building Society	£1m	£1.5m
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£1m	£1.5m
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£1m	£1.5m
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£1m	£1.5m

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Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£1m	£1.5m
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Bank of Montreal	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£1m	£1.5m
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£1m	£1.5m
Term Deposits/Call Accounts	France	BNP Paribas	£1m	£1.5m
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£1m	£1.5m
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£1m	£1.5m
Term Deposits/Call Accounts	France	Société Générale	£1m	£1.5m
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£1m	£1.5m
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£1m	£1.5m
Term Deposits/Call Accounts	Netherlands	Rabobank	£1m	£1.5m
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£1m	£1.5m
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£1m	£1.5m
Term Deposits/Call Accounts	US	JP Morgan	£1m	£1.5m

*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.*



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### APPENDIX D

#### Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use: *(please amend the table below as applicable – we encourage you to discuss with Arlingclose the instruments and limits appropriate to your Council's strategy.)*

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?	<i>E.g.</i>
▪ Deposits with banks and building societies	✓		<u>2 years</u>	<u>Maximum total investment</u> <u>£1m</u>	No	
▪ CDs with banks and building societies	✓	✓				

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.