BROMSGROVE DISTRICT COUNCIL

CABINET

22nd February 2012

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2012-13 TO 2014-15

Relevant Portfolio Holder	Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Teresa Kristunas
Wards Affected	**All**
Ward Councillor Consulted	None specific
Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 A 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.

2. RECOMMENDATIONS

2.1 Cabinet recommends to Full Council

2.1.1 approval of the strategy and prudential indicators shown at Appendix 1.

2.1.2 approval of the Authorised Limit for borrowing at £7,500,000 if required.

2.1.3 approval of the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £3m subject to market conditions.

2.1.4 approval of unlimited level for investment in Debt Management Account Deposit Facility (DMADF).

2.1.5 approval of the updated Treasury Management Policy shown at Appendix 2.

2.2 That Cabinet 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.

2.3 That Cabinet notes the the Audit Board will undertake additional scrutiny of the Strategy during 2012/13 to ensure the Council's investments are being managed in a risk controlled environment

3. KEY ISSUES

Financial Implications

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 November 2011 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.

3.7 The downgrades by both Fitch and Moody's in October 2011 to a swathe of global institutions, including UK institutions, follow the reassessment by them of the extent of support sovereigns are likely to provide to systemically important institutions in the future (lower, in both agencies' opinion) and their view that governments are now more likely to allow small institutions to fail if they get into difficulty.

In fact, Moody's pointed out at the time of the October 2011 downgrades, that the downgrade did not represent a deterioration in the financial strength of the UK Government or the banking system. Fitch's rating actions were also based on the future extent of support, which includes the recent policy recommendations of the Independent Commission on Banking.

3.8 The support dynamics for systemically important financial institutions have changed; in future this will be less than was the case back in 2008, but it has not disappeared altogether. The systemically important UK institutions that Bromsgrove DC would lend to if the minimum long-term rating is revised to A- are:

- Barclays Bank PLC*
- HSBC
- Lloyds TSB Bank*/ Bank of Scotland*
- Royal bank of Scotland*/ Nat West Bank – both part of the RBS Group in which the UK Government currently has a substantial shareholding.
- Santander UK Plc
- Standard Chartered Bank.
- Nationwide Building Society*.

*All of these institutions currently fall below Bromsgrove's minimum long-term criteria of A+ set within the 2011/12 strategy.

3.9 For the 2012/13 strategy Arlingclose (the Council's Treasury Advisor), would advise having a 12-month limit for each of the above institutions. However due to the ongoing European sovereign debt crisis and the potential impact it could have on the banking sector at large, not just in Europe, to manage and mitigate risk, Arlingclose have advised a lower operational limit for new deposits as follows:

- A 3 month maturity limit with each of HSBC and Standard Chartered
- For each of the institutions with an asterisk, above, a one month maturity limit
- For Santander UK plc, in view of the uncertain backdrop faced by its Spanish domiciled parent, placing monies on or limiting term deposits to the next working day.

3.10 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.

Legal Implications

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

Service/Operational Issues

3.12None as a direct result of this report.

Customer/ Equalities and Diversity

3.13 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment. These controls in place to mitigate these risks are as follows:

- Quarterly reporting to Overview and Scrutiny Committee and Cabinet of financial position on investments
- Monthly update 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.

5. APPENDICES

Appendix 1 - Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14
Appendix 2 – Treasury Management Policy Statement

BROMSGROVE DISTRICT COUNCIL

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Appendix 1

Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2 The purpose of this TMSS is, therefore, to approve:

- Treasury Management Strategy for 2012/13
- Annual Investment Strategy for 2012/13
- Prudential Indicators for 2012/13, 2013/14 and 2014/15
- MRP Statement.

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

1.4 As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of the Council on 17th March 2010.

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

2. Background

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

2.2 The Authority's current level of debt and investments is set out at ***Appendix A***.

2.3 The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

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

Table 1: Balance Sheet Summary Analysis

	2011/12 Estimate £'000	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**
CFR	7	209	5,059	9,882
Balances & Reserves	5,570	3,978	2,947	1,916
Cumulative Net Borrowing Requirement/(Investments)	**(5,563)**	**(3,769)**	**2,112**	**7,996**

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

3. Interest Rate Forecast

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

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. The interest rate forecast provided in ***Appendix C*** indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

4.2 As indicated in Table 1, the Authority has a gross and net borrowing requirement 2013/14 onwards. The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

5. Sources of Borrowing and Portfolio implications

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

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

6. Annual Investment Strategy

6.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.

6.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

6.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

6.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓

Debt Management Account Deposit Facility	✓	×

6.5 A number of changes have been implemented to the investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

6.6 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The current list of countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in ***Appendix D***. The list will be regularly updated in line with credit developments.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

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

7. Investment Strategy

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

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

7.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

8.The Use of Financial Instruments for the Management of Risks

8.1 Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

8.2 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

9.0 Balanced Budget Requirement

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

10. 2012/13 MRP Statement

10.1 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.

10.2 The four MRP options available are:
- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

10.3 MRP in 2012/13: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses).

10.4 MRP in respect of leases and Private Finance Initiative schemes 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.

10.5 MRP in respect of leases that have been 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.

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

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

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

12. Other Items

12.1 **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 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.

12.2 **Investment Consultants/Treasury Advisors**

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The 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 Investment & Debt Portfolio Position (Section 2.2)

	31/01/12 Actual Portfolio £'000
External Borrowing:	
Fixed Rate – PWLB	0
Fixed Rate – Market	0
Variable Rate – PWLB	0
Variable Rate – Market	0
Total External Borrowing	0
Other Long Term Liabilities:	
- PFI	0
- Finance Leases	7
Total Gross External Debt	**7**
Investments:	
Managed in-house	
- Short-term monies (Deposits/ monies on call /MMFs)	18,600
- Long-term investments	0
Managed externally	
- By Fund Managers	0
- Pooled Funds *(please list)*	0
Total Investments	**18,600**

Appendix B
Prudential Indicators 2012/13 – 2014/15

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

2. Net Borrowing and the Capital Financing Requirement:
This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.
The Executive Director of Finance and Resources reports that the authority had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

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

Capital Expenditure	**2011/12 Approved £'000**	**2011/12 Revised £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**
General	2,633	3,973	**3,587**	5,267	5,253
Total	**2,633**	**3,973**	**3,587**	**5,267**	**5,253**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved £'000	2011/12 Revised £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Capital receipts	2,058	2,685	1,940	100	100
Government Grants	485	1,288	1,442	310	0
Major Repairs Allowance					
Revenue contributions	90	0	0	0	0
Total Financing	2,633	3,973	3,382	410	100
Supported borrowing					
Unsupported borrowing			205	4,857	5,153
Total Funding	0	0	205	4,857	5,153
Total Financing and Funding	**0**	**0**	**3,587**	**5,267**	**5,253**

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
General Fund	-0.56	-0.69	0.50	0.93	5.75
Total	**-0.56**	**-0.69**	**0.50**	**0.93**	**5.75**

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	2011/12 Approved £'000	2011/12 Revised £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
General Fund	0	7	209	5,059	9,882
Total CFR	**0**	**7**	**209**	**5,057**	**9,882**

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2011	£'000
Borrowing	104
Other Long-term Liabilities	5
Total	**119**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2011/12 Approved £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Increase in Band D Council Tax	0.19	0.34	3.82	5.31

7.2 The increase in Band D council tax reflects the increases in running costs and/or increases in the provision for Capital Financing Charges.

8. Authorised Limit and Operational Boundary for External Debt:

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

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

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

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

Authorised Limit for External Debt	**2011/12 Approved £'000**	**2011/12 Revised £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**
Borrowing	3,500	3,500	7,500	11,000	16,000
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
Total	**3,500**	**3,500**	**7,500**	**11,000**	**16,000**

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

8.6 The Exective 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 Cabinet.

Operational Boundary for External Debt	2011/12 Approved £'000	2011/12 Revised £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Borrowing	2,500	2,500	6,500	10,000	15,000
Other Long-term Liabilities	0	0	0	0	0
Total	**2,500**	**2,500**	**6,500**	**10,000**	**15,000**

9. Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 18th May 2005.

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

10. Gross and Net Debt:

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need. This indicator has been shown borrowing and investments as absolute figures rather than as a proportion, revised guidance on this indicator is awaited from Cipfa.

Gross and Net Debt	2011/12 Estimated £'000	2012/13 Authorised £'000	2013/14 Authorised £'000	2014/15 Authorised £'000
Outstanding Borrowing (at nominal value)	0	205	5,062	10,215
Other Long-term Liabilities (at nominal value)	0	0	0	0
Gross Debt	0	205	5,062	10,215
Less: Investments	5,570	3,978	2,947	1,916
Net Debt	**-5,570**	**-3,773**	**2,115**	**8,299**

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

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on *(select as appropriate)* net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments)

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

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

11.3 As the Council does not have long-term debt, the limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing:

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

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

Maturity structure of fixed rate borrowing	Lower Limit for 2012/13 %	Upper Limit for 2012/13 %
under 12 months	0.00	100.00
12 months and within 24 months	0.00	100.00
24 months and within 5 years	0.00	100.00
5 years above	0.00	100.00

As the Council does not have long-term debt, the limits above provide the necessary flexibility within which decisions will be made for drawing down new loans, should it be necessary, in the appropriate maturity band.

13. Credit Risk:

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

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

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

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

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

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

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

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
	2.0	2.0	2.0	2.0	2.0

Appendix C – Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.25	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.20	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.25	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.

- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.
- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

Appendix D – Recommended Sovereign and Counterparty List (Section 8)

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

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)		
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)		
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)		
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc		
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)		
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc		
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society		
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)		
Term Deposits / CDs / Call	UK	Royal Bank of Scotland (RBS Group)		

Accounts				
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank		
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group		
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia		
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)		
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp		
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal		
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia		
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce		
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada		
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank		
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland		
Term Deposits /	France	BNP Paribas		

CDs / Call Accounts				
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)		
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)		
Term Deposits / CDs / Call Accounts	France	Société Générale		
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG		
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV		
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank		
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten		
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken		
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse		
Term Deposits / CDs / Call Accounts	US	JP Morgan		

***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.*