BROMSGROVE DISTRICT COUNCIL

CABINET

5TH MARCH 2008

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2008-09 TO 2010-11

Responsible Portfolio Holder	Cllr Geoff Denaro
Responsible Head of Service	Head of Financial Services – Jayne Pickering

1. SUMMARY

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. RECOMMENDATION

2.1 The strategy and prudential indicators shown at Appendix A and B, be approved and adopted.

2.2 That the Council be recommended to set the Authorised Limit for borrowing at £6,000,000 as required by CIPFA (this is the same as the Affordable Borrowing Limit as required by Section 3(1) of the Local Government Act 2003.)

2.3 That the Council be recommended to approve the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £3m.

3. BACKGROUND

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to set Treasury Management Strategy Statement (TMSS) for borrowing each financial year.

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.

3.3 CIPFA has defined Treasury Management as:

"the management of the organisation's 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."

3.4 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).

4. FINANCIAL IMPLICATIONS

4.1 The financial implications are contained within the body of the strategy statement at Appendix A.

5. LEGAL IMPLICATIONS

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

6. CORPORATE OBJECTIVES

6.1 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.

7. RISK MANAGEMENT

7.1 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*

7.2 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*

7.3 The risks associated with the delivery of maximum return within a secure environment are not currently identified in the risk register. This has been highlighted within a recent internal audit report and the risks and current controls will be included in the update financial services risk register.

7.4 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

8. CUSTOMER IMPLICATIONS

8.1 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.

9. EQUALITIES AND DIVERSITY IMPLICATIONS

9.1 None as a direct result of this strategy

10. VALUE FOR MONEY IMPLICATIONS

10.1 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.

11. OTHER IMPLICATIONS

Procurement Issues -None
Personnel Implications None
Governance/Performance Management None
Community Safety including Section 17 of Crime and Disorder Act 1998 None
Policy None
Environmental None

12. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	**No**

Chief Executive	**No**
Executive Director (Partnerships and Projects)	**No**
Executive Director (Services)	**No**
Assistant Chief Executive	**No**
Head of Financial Services	**Yes**
Head of Legal, Equalities & Democratic Services	**No**
Head of Organisational Development & HR	**No**
Corporate Procurement Team	**No**

13. WARDS AFFECTED

All wards

CONTACT OFFICER

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Appendix A

Treasury Management Strategy Statement and Investment Strategy 2008-09 to 2010-11

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Appendices

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") requires local authorities to set the Treasury Management Strategy Statement (TMSS) for borrowing each financial year.

1.2 CIPFA has defined Treasury Management as:
"the management of the organisation's 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 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; the main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby 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 (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

1.4 The strategy also takes into account the outlook for interest rates, the Council's current treasury position and its approved Prudential Indicators (attached as Appendix A). The PIs relevant to the treasury management strategy are set out below:

PI No.		2007-08 Approved	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
6	Authorised Limit for External Debt	£6m	£6m	£6m	£6m
7	Operational Boundary for External Debt	£5m	£5m	£5m	£5m
9	Upper Limit for Fixed Interest Rate Exposure	100 %	100 %	100 %	100 %
10	Upper Limit for Variable Rate Exposure	100 %	100 %	100 %	100 %
12	Upper Limit for total principal sums invested over 364 days	£25m	£16m	£10m	£5m

11	Maturity structure of fixed rate borrowing :	Lower Limit	Upper Limit %
	under 12 months	0%	100%
	12 months and within 24 months	0%	100%
	24 months and within 5 years	0%	100%
	5 years and within 10 years	0%	100%
	10 years and above	0%	100%

1.5 This TMSS also incorporates the Council's Investment Strategy.

2. The Treasury Position

2.1 The estimated treasury position is:

	31/12/2007 £m	31/3/2008 Estimated £m	2008/09 Estimated Average £m
Total external debt	Nil	Nil	Nil
Total Investments	£29.0	£17m	£8.4m

2.3 The balance as at 31/12/2007 includes cash-flow related investments. The investment balance at 31/3/2008 and the average for FY 2008/09 is predicated on existing investments being reduced by the application of capital receipts for the funding for approved capital schemes in the financial year.

23 The estimate for interest receipts in 2008/09 is £426k.

3. Outlook for Interest Rates

3.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. It is summarised below.

3.2 UK : The global credit crunch impacts on UK finance and business services sector; weakness spreads to housing and ultimately the consumer. UK housing market enters a period of considerable weakness. Rising repossessions and ensuing nervousness lead to a consumer slowdown.

The Bank of England's February Inflation Report projects an initial marked and more persistent slowdown in growth. Inflation remains resilient from elevated food prices, fuel and transport costs and will test the Bank's upper CPI limit of 3%.

The Bank's Monetary Policy Committee, balancing deteriorating growth prospects with elevated inflation, will adopt a cautious approach and deliver two further 0.25% interest rate cuts taking the Bank Rate to 4.75% .

UK Bank Rate at quarter end %	Mar 2008	Jun 2008	Sep 2008	Dec 2008	Mar 2009	Jun 2009	Sep 2009	Dec 2009	Mar 2010
Central case	5.25	5.00	4.75	4.75	4.75	4.75	4.75	4.75	5.00

3.3 US / Europe :

- The US Federal Reserve will supplement the 2.25% rate cuts already delivered as insurance against a US recession.
- European rates remain on hold at 4%. The ECB moves to a neutral stance as global slowdown becomes more real but inflation is stubborn and economic fundamentals remain strong.

4. Borrowing Requirement and Strategy

4.1 The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Appendix A. The CFR will determine the Council's requirement to make a Minimum Revenue Provision for Debt Redemption (MRP) from within its Revenue budget.

No. 3	Capital Financing Requirement	31/3/08	31/3/09	31/3/10	31/3/11
		Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
	General Fund CFR	24	24	24	192
	Total CFR	**24**	**24**	**24**	**192**

4.2 Over the past 5 years the Council had not entered into any long-term borrowing arrangements due to the significant capital receipts generated. However, the Medium Term Financial Plan for 2008/09 to 20010/11 estimates that utilisation of capital receipts will decrease by 2010/11 the Council's balance of capital receipts to a level which will result in the Council looking to borrow to fund future capital programmes. Capital expenditure not financed from Capital Receipts, Capital Grants and Contributions, Revenue or Reserves will produce an increase in the CFR (the underlying need to borrow) and may in turn produce an increased requirement to charge MRP in the Revenue Account.

4.3 Physical borrowing may be greater or less than the CFR. When borrowing the Council will aim for maximum control over its borrowing activities as well as flexibility on its loans portfolio and will keep under review the options it has in borrowing from the PWLB, the market and other sources.

4.4 The Council will adopt a prudent and pragmatic approach consistent with the Council's Prudential Indicators to minimise borrowing costs without compromising longer-term stability of the portfolio. Actual borrowing undertaken and the timing will depend on capital expenditure levels, interest rate forecasts and market conditions during the year. The Council will be advised by Arlingclose of the specific timing of borrowing.

4.5 The Council will undertake a financial options appraisal process to establish how it has arrived at its 'value for money' judgement in the use of resources.

5. Investment Policy and Strategy

Background

5.1 Guidance from the then ODPM (now DCLG) on Local Government Investments in England requires, similarly, that an Annual Investment Strategy (AIS) be set. The Guidance permits the TMSS and the AIS to be combined into one document.

Investment Policy

5.2 The Council's general policy objective is to invest its surplus funds prudently. 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.

The speculative procedure of borrowing purely in order to invest is unlawful.

5.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the ODPM Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendix C.

5.4 The Council will maintain a counterparty list based on its criteria and monitor and update the credit standing of the institutions on a regular basis. This assessment may include credit ratings, alternative assessments of credit strength, and other information.

5.5 The Council's estimated levels of investments are set out in 2.1 of this TMSS.

Investment Strategy

5.6 Based on the forward projections for its Balances, Reserves and Provisions available for investment and its budgeted income requirement, the Council will evaluate and consider investment opportunities to earn an optimum return, to build in consistency of return over the medium term to the extent practicable, and to diversify and manage risk.

The Head of Financial Services, 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 Cabinet meeting.

5.7 **Investments managed in-house**

5.7.1 The Council's existing investments include the monies previously managed by Invesco Asset Management. The in-house investments at the time of determining this strategy comprise term deposits with banks and building societies with maturities under 1 year, and call accounts which are used to maintain liquidity. Shorter term investments will continue to be made with reference to cashflow as well as the outlook for the UK Bank Rate and prevailing money market rates and may also include the use of AAA-rated Money Market Funds.

5.7.2 Longer-term investments : A proportion of the Council's in-house core balances can be invested with a longer-term strategic focus, within the limits the Council has set for Non-Specified Investment. As interest rates are forecast to fall in 2008-09, the Council may consider investing a proportion of its in-house managed funds for periods longer than 1 year in order to protect against falling interest rates and to build in stability of investment return against the budget. Fixed longer-term investments will be made with due regard to projected reduction in the level of capital receipts as these are used to finance the capital programme and the limits set for longer term investments in Appendix C of this TMSS.

5.7.3 The mix of long- and short-term investments with staggered maturities will enable the Council to maintain an appropriate level of liquidity and also mitigate re-investment risk (the risk that a large proportion of maturing investments are reinvested when interest rates are at a cyclical low). The Council will consider investing in :

- Term deposits with maturities in excess of 1 year, including callable deposits where appropriate.
- Bonds issued by AAA-rated Multilateral Development Banks (supranational banks such as the European Investment Bank, the International Bank of Reconstruction and Development etc).

5.7.4 The associated increase in credit risk from a longer-term investment is managed by using counterparties meeting the Council's longer-term credit criteria, ie those with a minimum long-term rating of AA- (AA minus) or equivalent.

5.7.5 Fixed longer-term investments will
- have regard to projected reduction in the level of capital receipts as these are used to finance the capital programme
- be within the limits set for longer term investments in Appendix C of this TMSS
-be made with advice from Arlingclose.

5.8 Investments managed externally

Funds managed on a segregated basis

5.8.1 The Council's funds are also managed on a discretionary basis by HSBC. The fund's remit allows the managers scope to add value through the use of investments contained in Appendix C and within the parameters and guidelines set for the Council's fund. Revised parameters for HSBC are being discussed with HSBC for a likely introduction on 01/4/08 to lower market risk and enhance stability of return on the Council's portfolio. This is particularly important as the Council's investment balances reduce in forthcoming financial years as a result of the financing of the capital programme from capital receipts.

5.8.2 HSBC's will report monthly. The manager's performance will be monitored quarterly and measured against the benchmark set for the fund, prevailing economic conditions and investment opportunities.

Collective Investment Schemes (Pooled Funds):

5.8.3 The Council will explore with Arlingclose the investments in Pooled Funds due to the continuing importance of investment returns in the Council's overall finances as well as a recognition that investment returns purely from cash or near cash instruments will be lower in the future.

5.8.4 Pooled funds are liquid enabling units in the fund to be sold at short notice. Using pooled funds will enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. It will enable the Council to establish relatively small exposures (£1m - £2m upwards) in appropriate asset classes including those which, if used within segregated funds management mandates, would constitute capital expenditure.

5.9 All investment activity will comply with the accounting requirements of the local authority SoRP.

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. Annual MRP Statement

7.1 Draft Regulations produced by the Department of Communities and Local Government include draft consultation Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. This Guidance includes a recommendation that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to full council. The statement should indicate which of the four options set out in the Guidance are to be followed in the financial year.

The four options available are set out below:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

The Council will apply Option 1 in respect of supported capital expenditure and Option 3 or Option 4 in respect of unsupported capital expenditure.

8 Reporting on the Treasury Outturn

8.1 The Head of Financial Services will report on treasury management activity / performance as follows :

(a) Investment income and return will be monitored and reported on quarterly. The report to members on investment income will be received as part of the quarterly financial and performance monitoring reports to the Performance Management Board and Cabinet.

(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

9. Other items

CIPFA review of the Prudential Code.

9.1 CIPFA will be undertaking a review of the implementation and ongoing use of the Prudential Code to assess whether there are improvements that could and should be made. A discussion paper was circulated to local authorities in January 2008 setting out a commentary on the experience of the first years of the Prudential Code and asking questions about the application of the Code in practice. The closing date for responses to the consultation will be 31 March 2008.

9.2 CIPFA will then publish a response to the consultation during May 2008 which will summarise the views received and set out the next steps. Due to the statutory nature of the Prudential Code any significant revision to the Code will require a rigorous process of consultation, validation and approval.

Prudential Indicators FY 2008-09 to FY 2010-11

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. It should be noted that CIPFA will be undertaking a review of the Code in 2008.

2. Estimates of Capital Expenditure:

2.1 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.

No. 1	Capital Expenditure	2007-08	2008-09	2009-10	2010-11
		£'000	Estimate £'000	Estimate £'000	Estimate £'000
	General Fund	8,240	8,351	1,655	701
	Total	**8,240**	**8,351**	**1,655**	**701**

2.2 Capital expenditure will be financed as follows:

Capital Financing	2007-08	2008-09	2009-10	2010-11
	£'000s	Estimate £'000	Estimate £'000	Estimate £'000
Capital Receipts	6,114	7,510	1,374	252
Capital Grants	1,008	481	281	281
Capital Contributions	1,118	360	0	0
Revenue Contributions	0	0	0	0
Borrowing	0	0	0	168
Total	**8,240**	**8,351**	**1,655**	**701**

2.3 The estimates are as per the **Capital Programme 2007/08 to 2010/11 Amended** to take account of use of capital receipts per the Cabinet Report of 5/12/2007. The element to be financed from borrowing in 2010/11 impacts on the movement in the Capital Financing Requirement.

3. Ratio of Financing Costs to Net Revenue Stream:

3.1 This is an indicator of affordability and highlights the revenue implication of existing and proposed capital expenditure on investment income and is based on the net revenue stream and interest and investment income as per the Cabinet report of 5/12/07.

No. 2	Ratio of Financing Costs to Net Revenue Stream	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
	General Fund	-6.85%	-3.74%	-1.22%	0.00%

Note: this ratio is a negative number as the Council has a net investment position.

4. Capital Financing Requirement:

4.1 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. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Fixed Asset Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure.

No. 3	**Capital Financing Requirement**	31/3/08	31/3/09	31/3/10	31/3/11
		Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
	General Fund CFR	24	24	24	192
	Total CFR	**24**	**24**	**24**	**192**

4.2 In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should make sure that net external borrowing does not, except in the short term, exceed the Capital Financing Requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

4.3 The Head of Financial Services reports that this Council had no difficulty meeting this requirement in 2006-07 nor are difficulties envisaged for the current or future financial years.

5 Actual External Debt:

5.1 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.

No. 4	**Actual External Debt as at 31/3/2007**	£ ' 000
	Short-term Borrowing	108
	Other Long-term Liabilities	--
	Total	**108**

5.2 The short-term borrowing as at 31/3/07 was for the management of the Council's cash flow requirements.

6. Incremental Impact of Capital Investment Decisions:

6.1 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.

No. 5	**Incremental Impact of Capital Investment Decisions**	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
	Incremental impact on Band D Council Tax	£9.68	£8.99	£7.82	£4.03

6.2 The impact on the Band D council tax reflects the reduction in investment income due to depletion of capital receipts to finance the capital programme.

7 Authorised Limit and Operational Boundary for External Debt:

7.1 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 Capital Financing Requirement.

7.2 The **Authorised Limit** sets the maximum level of external borrowing (i.e. gross 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.

7.3 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.

7.4 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).

No. 6	**Authorised Limit for External Debt**	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000
	Borrowing	6,000	6,000	6,000	6,000
	Other Long-term Liabilities	--	--	--	--
	Total	**6,000**	**6,000**	**6,000**	**6,000**

7.5 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.

7.6 The Head of Financial Services 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.

No. 7	**Operational Boundary for External Debt**	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000
	Borrowing	5,000	5,000	5,000	5,000
	Other Long-term Liabilities	--	--	--	--
	Total	**5,000**	**5,000**	**5,000**	**5,000**

8. Adoption of the CIPFA Treasury Management Code:

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

No. 8	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.

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

9.1 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 net principal outstanding sums.

9.2 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

		2007-08	2008-09	2009-10	2010-11
		%	%	%	%
No. 9	**Upper Limit for Fixed Interest Rate Exposure**	100%	100%	100%	100%
No. 10	**Upper Limit for Variable Rate Exposure**	100%	100%	100%	100%

10 Maturity Structure of Fixed Rate borrowing:

10.1 This indicator 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, requiring borrowing to be replaced at times of uncertainty over interest rates.

10.2 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.

No. 11	**Maturity structure of fixed rate borrowing**	**Lower Limit %**	**Upper Limit %**
	under 12 months	0%	100%
	12 months and within 24 months	0%	100%
	24 months and within 5 years	0%	100%
	5 years and within 10 years	0%	100%
	10 years and above	0%	100%

10.3 As the Council currently has no longer-term debt, the limits above provide the necessary flexibility within which decisions will be made for drawing down new fixed rate loans.

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

11.1 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.

11.2 The upper limit for 2007-08 was set to permit the Council's two fund managers the flexibility to operate within their individual fund mandates. The lower thresholds for 2008-09 onwards reflect the Council's diminishing investment balances.

No. 12	**Upper Limit for total principal sums invested over 364 days**	2007-08	2008-09	2009-10	2010-11
		£m	Estimate £m	Estimate £m	Estimate £m
	Upper limit	25.0	16.0	10.0	5.0

APPENDIX C

Arlingclose's Forecast for Interest Rates - February 2007

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Official Bank Rate									
Central case	5.25	5.00	4.75	4.75	4.75	4.75	4.75	4.75	5.00
Risks		-0.25	-0.25						
1-yr LIBID									
Central case	5.15	5.10	5.10	5.00	5.00	4.75	4.75	5.00	5.00
Risks	-0.10	-0.10							
5-yr gilt									
Central case	4.25	4.25	4.25	4.50	4.70	4.70	4.70	4.80	4.80
Risks	+0.10	+0.10							
10-yr gilt									
Central case	4.40	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.75
Risks	+0.10	+0.10							
20-yr gilt									
Central case	4.50	4.45	4.45	4.70	4.70	4.70	4.70	4.70	4.70
Risks	+0.10								
50-yr gilt									
Central case	4.45	4.45	4.35	4.35	4.40	4.40	4.40	4.40	4.40
Risks	+0.10								

The UK Bank Rate is currently 5.25%. The Bank of England is expected to respond to deteriorating economic prospects and adopt a cautious approach to rate reductions cutting rates by 0.25% in each of quarters 2 and 3 of calendar 2008, their timing to coincide with the May and August Inflation Reports.

The UK is particular vulnerable to a slowdown in the housing market and the financial sector. The expected feed through of weaknesses from housing and financial services into the wider economy.

The Bank of England's faces the conundrum of setting interest rate policy to counteract slowing growth on the one hand and to combat higher inflation on the other. The Bank's February 2008 Inflation Report shows :

- The slowdown in economic growth will initially be more pronounced and persistent as tighter credit conditions bear down on business activity and consumers' incomes. Thereafter growth is projected to stage a recovery over the medium term on the back of easier credit conditions, weaker sterling and lower interest rates.

- Higher energy, food and import prices are set to push inflation up sharply in the near term. CPI increases will depend on whether businesses and retailers can pass on higher producer prices to the consumer. Higher inflation will test the Monetary Policy Committee's upper 3% limit and could result in the Governor having to write one or more open explanatory letters.

Market Outlook: Short-term gilt/bond yields will be influenced by the forecast movement in the Bank Rate and are expected to fall ahead of the forecast movement in this rate. In the near term, the continuing fall out from the financial market turmoil and liquidity constraints could push gilt yields lower. Thereafter, increased government bond issues could put upward pressure on gilt yields.

APPENDIX C

Specified and Non Specified Investments

Specified Investments identified for use by the Council:

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

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high" credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- 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 (DMADF)
- 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
- Money Market Funds, i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
- * 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. * In-house use of these instruments will be on advice from the Council's treasury advisor.
2. The use of the above instruments by the Council's fund manager, HSBC, will be by reference to the fund guidelines contained in the agreement between the Council and the manager.

For credit rated counterparties, the minimum criteria will be the short-term ratings of : P-1 (Moody's) or A-1 (S&P) or F1 (Fitch) backed up by a support rating of 1, 2 or 3 as stated in the Council's Treasury Management Practices. The individual counterparty limit for banks and building societies will be £3m.

Investments with the DMADF are guaranteed by HM Treasury. Following advice from the Council's treasury advisor, from a credit perspective no upper £ limit is proposed on investments with the DMADF.

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 appropriate to your strategy. Please also note that the % and maturity limits are examples for the template)*

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	✓ ✓	✓	5 yrs	60% in aggregate	No
Gilts and bonds ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	✓	10 years	75% in aggregate	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573) but which are not credit rated	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	50%	No

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