

Haringey Council

Reserves policy

Background

- 1 Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
- 2 CIPFA has issued Local Authority Accounting Panel (LAAP) Bulletin No.55, Guidance Note on Local Authority Reserves and Balances. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government.
- 3 This note sets out the Council's policy for compliance with the statutory regime and relevant non-statutory guidance.

Overview

- 4 The Council's overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management, and performance management.
- 5 The Council will maintain:
 - a general fund general reserve;
 - a housing revenue account (HRA) general reserve; and
 - a number of earmarked reserves.

General fund general reserve

- 6 The purpose of the general reserve is to manage the impact of emergencies or unexpected events. Without such a reserve, the financial impact of such events could cause a potential financial deficit in the general fund, which would be severely disruptive to the effective operation of the authority. The reserve should mitigate against immediate service reductions if there were any unforeseen financial impacts.

- 7 The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. The level will be expressed as a cash sum over the period of the general fund medium-term financial strategy. The level will also be expressed as a percentage of general funding requirement (to provide an indication of financial context).

HRA general reserve

- 8 The purpose of the HRA general reserve is similar to the general fund general reserve above except applied to the HRA.

Earmarked reserves

- 9 The purpose of earmarked reserves is to enable sums to be set aside for specific purposes or in respect of potential or contingent liabilities where the creation of a provision is not required.
- 10 The Council will maintain the following earmarked reserves:
1. Services reserve: the net unspent balance of service and other budgets where the Cabinet has agreed that such sums could be carried-forward for use in subsequent years;
 2. Insurance reserve: funds set aside to meet internally-insured liabilities where the creation of a provision is not required;
 3. PFI reserve: funds set aside from specific PFI grant from the government to meet payments to be made to service the debt relating to the Council's secondary schools PFI project; this will be required to manage lifecycle funds during the suspended services period;
 4. Council infrastructure reserve (formerly infrastructure reserve): specific funds set aside for the planned maintenance and renewal of the Council's infrastructure including for IT and Property programmes;
 5. Transformation reserve (formerly the Transition reserve): will now be used to fund investment needs identified through the Medium Term Financial Planning process. It will also be used to fund redundancy and decommissioning costs and the investment necessary to deliver longer term efficiencies and change;

6. Financing reserve: a reserve to enable multiple-year medium-term financial strategies in the context of the annual budgeting and accounting cycle;
7. Debt repayment / capital reserve: this reserve is used to set aside money that the Council has for repaying outstanding debt in the future and/or for the purposes of setting aside money earmarked for capital investment;
8. Major repairs reserve (HRA): the balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used to meet housing capital expenditure in future years;
9. Schools' reserve: the net unspent balance of delegated funds managed by schools;

New Reserves to be established from 31 March 2013

10. Community Infrastructure and Growth reserve – going forward the council will need to grow its revenue base as government funding reduces, this will be achieved by increasing the Council Tax and Business Rate base. Resources are likely to be needed to support the community, infrastructure and growth in housing and business;
11. Urban Renewal reserve: it would be beneficial for the council to support local businesses so they can share the benefits of the growth, this could include supporting town centres and business investment districts, and maintaining retail business.

Management and control

- 11 The schools reserve, the insurance reserve, and the PFI reserve are clearly defined and require no further authority for the financing of relevant expenditure.
- 12 The use of all other reserves requires budgetary approval in the normal way.
- 13 All reserves are reviewed as part of the budget preparation, financial management and closing processes.

Reporting and review

- 14 The Council will consider a report from the S151 Officer on the adequacy of the reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary. The

Corporate Committee will consider actual reserves when approving the statement of accounts each year.

- 15 The Council will review the reserves policy on an annual basis.

RESERVES AND THEIR ADEQUACY

1. General Fund General Reserve

The judgement on the adequacy of the general fund general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. For this purpose identification of the key risks is done in three ways:

- identification of risks during the financial planning and budget setting process as set out in the main report;
- risk assessment of the agreed investment and savings proposals in the agreed budget package, and;
- key risks identified, monitored and managed through the Council's risk management strategy and framework.

The calculation of the potential financial impact of these assessed risks has been undertaken and in the light of this, it is regarded that £15m is an appropriate level for the general fund general reserve over the three-year financial planning period. The risks set out in Appendix 3b assess a potential financial impact at £11.4m; the Director of Corporate Resources therefore regards the £15.3m figure as a very prudent level to set aside.

The £15m figure for general balances represents 5% of the Council's net budget requirement for 2013-14.

2. Services Reserve

It is Council policy that service under and over spends are retained by the relevant service subject to approval by the Cabinet in the year end financial outturn report. This reserve earmarks those funds to either be carried forward to the following financial year or retained.

3. Insurance Reserve

The insurance reserve is kept under review by the Head of Audit and Risk Management with the assistance of the Council's insurance adviser. A key variable is the split between this reserve and the level of insurance provision held elsewhere in the balance sheet. The last actuarial review concluded that this reserve was at an appropriate level. The Director of Corporate Resources is satisfied that the reserve constitutes adequate protection in respect of the self-insured risk. This self-insurance reserve is in addition to the separately procured insurance with a consortium of other London boroughs.

4. PFI Reserve

The PFI reserve reflects the agreed arrangements following the suspension of services within the PFI contract. The reserve will be used to manage the lifecycle fund requirements for schools.

5. Council Infrastructure Reserve

The Council infrastructure reserve is a key financing resource for the programmes of renewal of assets for the Council, including IT and property. This assists in spreading the costs of core replacement of assets as well as managing asset improvement programmes. It is current policy that revenue and capital underspends in IT and Property are transferred to this reserve for future use.

The infrastructure reserve will remain in place to spread the cost of future infrastructure programmes.

6. Transformation (formerly Transition) Reserve

The Transition Reserve was previously earmarked to fund redundancy costs and investment needs identified through the Medium Term Financial Planning process. The Director of Corporate Resources now proposes to rename the reserve as the Transformation Reserve, which more accurately reflects its proposed usage. It will continue to be used to fund redundancy costs but additionally now cover decommissioning costs and any investment necessary to deliver longer term efficiencies and change.

7. Financing Reserve

The financing reserve is a key tool for managing the impact of financial plans from one year to another. This reserve requires balances to be at different levels, year to year, depending on the demand as identified through previous and current budget plans. This reserve includes an amount set aside for the Sustainable Investment Fund (SIF) which supports invest-to-save projects designed to reduce the Council's CO2 emissions and reduce energy costs. This reserve will be expanded to include the downside risk of volatility in the business rate base as that is now borne by councils up to a certain safety net level.

8. Debt Repayment / Capital Reserve

This reserve is used to set aside money that the Council has for repaying outstanding debt in the future and / or for the purposes of setting aside money earmarked for future capital investment. It is also available to support the capital programme.

9. HRA reserve

The judgement on the adequacy of the HRA general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. The risk evaluation has taken into account the recent move to self-financing.

In the light of this, the HRA will need to generate additional and substantial contributions to the reserve to fund Housing capital expenditure in the future. The Director of Corporate Resources considers the plans set out in the HRA MTFP for the next three years financial planning period to be at a prudent level.

10.HRA Major Repairs Reserve

The balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used for future housing capital spend.

11.Schools Reserve

The amount in the schools reserve is a consequence of the funding and spending of individual schools. A proportion of it reflects earmarked funding for future schools projects. The current expected level of the reserve at 31 March 2013 of £4.1m represents 3% of the schools core funding.

A schools loan scheme is in place (with the agreement of the Schools Forum) which acts like the Council's own Sustainable Investment Fund (SIF) and allows schools to borrow to invest in energy and carbon reducing improvements that can be repaid back to the general schools balances. The overall balance is likely to reduce further as more schools opt to become Academies and take their balance with them.

The following new reserves are proposed for establishment as at 31 March 2013:-

12.Community Infrastructure and Growth Reserve

Going forward the council will need to grow its revenue base as government funding reduces, this will be achieved by increasing the Council Tax and Business Rate base. Resources are likely to be needed to support the community infrastructure and growth in housing and business;

13.Urban Renewal Reserve

It will be beneficial for the council to support local businesses so they can share the benefits of growth, this could include supporting town centres and business investment districts, and maintaining retail business.

14.Overall

The estimates of the reserves position, including earmarked and un-earmarked reserves for the General Fund, Schools and the HRA are detailed in the following table.

Reserves Summary

	Actuals at 31.3.2012 £million	Forecast to 31.3.2013 £million	Forecast to 31.3.2014 £million
Non-earmarked			
General Fund Balance	15.3	15.3	15.3
Total Non-earmarked Reserves	15.3	20.3	20.3
Earmarked			
Services Reserve	8.4	7.0	5.6
Insurance Reserve	8.2	8.0	8.0
PFI Reserve	7.9	7.0	7.0
Council Infrastructure Reserve (renamed)	2.4	1.4	1.0
Transformation Reserve (renamed)	6.4	8.2	4.2
Financing Reserve	14.9	18.1	14.1
Debt Repayment/Capital Reserve	13.3	13.3	12.2
Community Infrastructure & Growth Reserve	0	3.0	2.0
Urban Renewal Reserve	0	2.0	1.0
Total Earmarked Reserves	61.5	68.0	55.1
Other Reserves			
HRA	11.6	11.8	13.4
Major Repairs (HRA)	0.6	0.6	0.6
Schools	5.1	4.1	3.1
Total Other Reserves	17.3	16.5	17.1
Total	94.1	99.8	87.5

Adequacy of Reserves - Risk Assessment

Three key assessment areas:

1. Identification of risks during the financial planning and budget setting process as set out in the main report;
2. risk assessment of the agreed investment and savings proposals in the proposed budget package, and;
3. key risks identified, monitored and managed through the Council's risk management strategy in the corporate risk register.

	Gross Budget Exposure £m	Risk %	Residual Impact £m
1. Budget Process			
Adult Social Care	75	A medium level risk	
Children's Services	60	assessment (10%) has	
Housing	17	been applied to the	
Capital Financing	38	budget amount potentially	
Revenue streams	50	at risk	24.0
2. Savings Proposals			
		Medium risk (15%) on	
		savings proposals for	
- Delivery Programme	27	2013-14	4.1
- Transition costs (e.g. redundancies)	10	High risk of significant financial impact	10.0
3. Corporate Risk Register			
	30	Low risk assessment on variety of risks within the corporate risk register	3.0
4. Unidentified Risks			
			1.0
Less earmarked reserves and contingencies for the above			- 30.7
Grand Total			11.4



Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16

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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 Communities and Local Government (CLG) Department'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 elements of 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 proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.
- 1.5 The purpose of this report is to propose:
 - Treasury Management Strategy - Borrowing in Section 4, Investments in Section 5
 - Prudential Indicators – these are detailed throughout the report and summarised in Annex 2
 - MRP Statement – Section 10

2. CIPFA Treasury Management Code of Practice

- 2.1 Adoption of the CIPFA Treasury Management Code of Practice is one of the Prudential Indicators. The Council originally adopted the Code of Practice in May 2002. Revisions to the Code in 2009 and 2011 have been reflected in updated versions of all policies and procedures.

3. Balance Sheet and Treasury Position

- 3.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management activity. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2013 Estimate £000	31/03/2014 Estimate £000	31/03/2015 Estimate £000	31/03/2016 Estimate £000
General Fund CFR	254,229	251,066	240,206	228,322
Less: Share of Existing External Borrowing & Other Long Term Liabilities	167,907	151,488	143,731	136,598
Internal Borrowing	86,322	74,022	69,022	64,022
Cumulative Net Borrowing Requirement	0	25,556	27,453	27,702

Table 1b: Treasury Position – HRA

	31/03/2013 Estimate £000	31/03/2014 Estimate £000	31/03/2015 Estimate £000	31/03/2016 Estimate £000
HRA CFR	271,714	271,714	271,714	271,714
Less: Share of Existing External Borrowing & Other Long Term Liabilities	265,482	209,043	200,272	193,016
Internal Borrowing	6,232	7,500	7,500	7,500
Cumulative Net Borrowing Requirement	0	55,171	63,942	71,198

- 3.2 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 4), the Council has maximised the amount of internal borrowing that can be done. As interest rates are not expected to rise over the next three years, it is anticipated that a significant level of internal borrowing will continue, with the only reduction expected reflecting the planned movement in reserves. The borrowing requirement at the bottom of each of the tables shows how much external borrowing will be required to fund maturing external borrowing.

- 3.3 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2012-13 to date, nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.
- 3.4 It is a requirement for the HRA CFR to remain with the limit of indebtedness or “debt cap” set by the Department of Communities and Local Government at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years’ debt predictions for the HRA debt pool to increase.

Table 2: HRA Debt Cap

	31/03/2013 Estimate £000	31/03/2014 Estimate £000	31/03/2015 Estimate £000	31/03/2016 Estimate £000
HRA CFR	271,714	271,714	271,714	271,714
HRA Debt cap	327,538	327,538	327,538	327,538
Headroom	55,824	55,824	55,824	55,824

- 3.5 Table 3 below shows proposed capital expenditure over the coming three financial years. 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.

Table 3: Capital Expenditure

	2012/13 Approved £000	2012/13 Projected Out-turn £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
General	44,350	38,400	47,811	21,079	16,619
HRA	43,514	42,000	34,202	55,818	47,319
Total	87,864	80,400	82,013	76,897	63,938

3.6 Capital expenditure is expected to be financed or funded as follows:

Table 4: Capital Financing

	2012/13 Approved £000	2012/13 Projected Out-turn £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital receipts	11,130	9,609	16,073	10,128	7,600
Other grants & contributions	9,903	7,194	13,130	1,147	1,783
Government Grants	28,138	27,278	15,278	35,987	6,886
Reserves / Revenue contributions	33,219	30,941	28,657	28,588	47,669
Total Financing	82,390	75,022	73,138	75,850	63,938
Borrowing	5,474	5,379	8,875	1,047	0
Total	87,864	80,400	82,013	76,897	63,938

3.7 As an indicator of affordability the table below shows the incremental 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.

Table 5: Incremental Impact of Capital Investment Decisions

	2012/13 Approved £	2012/13 Projected Out-turn £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	1.31	0.72	8.77	1.41	0.36
Increase in Average Weekly Housing Rents	0.20	0.11	0.13	0.13	0.22

3.8 The ratio of financing costs to the Council's net revenue stream 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.

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2012/13 Approved %	2012/13 Projected Out-turn %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
General Fund	2.70	2.71	2.62	2.51	2.45
HRA	15.35	13.87	12.94	12.72	11.88

4. Borrowing Strategy

4.1 A breakdown of the Council's current and expected external borrowing plus other long-term liabilities is shown in Annex 1. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

4.2 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). The Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. 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.

Table 7: Authorised Limit for External Debt

	2012/13 Approved £000	2012/13 Projected Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Borrowing	637,803	376,702	569,256	569,409	561,982
Other Long-term Liabilities	151,114	56,687	102,037	96,068	89,888
Total	788,917	433,389	671,293	665,477	651,870

4.3 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.

Table 8: Operational Boundary for External Debt

	2012/13 Approved £000	2012/13 Projected Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Borrowing	537,803	376,702	469,256	469,409	461,982
Other Long-term Liabilities	100,742	56,687	68,024	64,045	59,926
Total	638,545	433,389	537,280	533,454	521,908

- 4.4 The Director of Corporate 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 Corporate Committee.
- 4.5 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 Annex 3 indicates that an acute difference between short and longer term interest rates is expected to continue until 2016. 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.
- 4.6 This “cost of carry” has been a feature of money markets since 2009-10 and by essentially lending its own surplus funds to itself (i.e. internal borrowing) the Council has minimised borrowing costs and reduced overall treasury risk by reducing the level of its external investment balances. As this position is expected to continue throughout 2013-14, there are no plans to replace this internal borrowing with external borrowing. However due to debt maturities in 2013-14, external borrowing of approximately £80m will be required.
- 4.7 The Council 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.

- 4.8 In conjunction with advice from its treasury management adviser, Arlingclose Ltd, the Council will keep under review the following borrowing options:
- PWLB loans
 - Borrowing from other local authorities
 - Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
 - Borrowing from the Money Markets
 - Capital markets (stock issues, commercial paper and bills)
 - Structured finance
 - Leasing
- 4.9 The “cost of carry” discussed above has resulted in an increased reliance upon shorter dated and variable rate borrowing. These types of borrowing inject volatility into the debt portfolio in terms of interest rate risk, however this is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Council’s exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in a review of the borrowing strategy in conjunction with the Council’s treasury management advisers to determine whether the exposure to shorter dated and variable rates is maintained or altered.
- 4.10 The Council has £125m of loans which are LOBO loans (Lender’s Options Borrower’s Option) and all of them will be in their call period during 2013/14. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the lender’s discretion. As LOBOs currently make up 35% of the total external debt portfolio, this is a significant risk. Any LOBO called will be discussed with the Council’s treasury advisers prior to the acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.
- 4.11 The Council’s debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring, although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:
- Savings in risk adjusted interest costs
 - Rebalancing the interest rate structure of the debt portfolio
 - Align long term cash flow projections and debt levels
 - Changing the maturity profile of the debt portfolio.

As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers. Borrowing and rescheduling activity will be reported to Corporate Committee as part of the quarterly monitor reports.

- 4.12 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 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.
- 4.13 The Council's existing level of fixed interest rate exposure is 96.7% and variable rate exposure is 3.3%, however it is recommended that the limits in place for 2012/13 are maintained in future to retain flexibility.

Table 10: Fixed and Variable Interest Rate Exposure

	2012/13 Approved %	2012/13 Actual %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	96.7	100	100	100
Upper Limit for Variable Interest Rate Exposure	40	3.3	40	40	40

- 4.14 The Council is required to set limits on the percentage of the portfolio maturing in each of the periods set out in the table below. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be taken for the optimum period. The limits apply to the combined General Fund and HRA debt pools.

Table 11: Maturity Structure of fixed rate borrowing

	Lower Limit %	Upper Limit %
under 12 months	0	40
12 months & within 2 years	0	35
2 years & within 5 years	0	35
5 years & within 10 years	0	35
10 years & within 20 years	0	35
20 years & within 30 years	0	35
30 years & within 40 years	0	35
40 years & within 50 years	0	50
50 years & above	0	50

5. Investment Policy and Strategy

- 5.1 Guidance from the Communities and Local Government Department (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set.
- 5.2 The Council's investment priorities are, in this order:
- security of the invested capital;
 - liquidity of the invested capital;
 - an optimum yield which is commensurate with security and liquidity.
- 5.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Instruments proposed for the Council's use within its investment strategy are contained in Annex 4 and the list of proposed counterparties is shown in Annex 5. In keeping with the strategy of maintaining low investment balances while internally borrowing, it is proposed only to use specified investments during 2013/14. The Director of Corporate 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. Investment activity will be reported to Corporate Committee as part of the quarterly reports.
- 5.4 Money markets remain in a volatile state, with little economic growth in most developed countries and ongoing concerns about the creditworthiness of eurozone countries. Given this backdrop, it is proposed to continue to limit the proposed counterparty list to UK institutions and Money Market Funds only.
- 5.5 With all investments the Council makes there is a risk of default, so the proposed list of investments is prepared to minimise this risk by being selective about the counterparties to be used. It is proposed to continue to apply a minimum long term credit rating of A-, which is described as "high credit quality" by the rating agencies.
- 5.6 In addition to the minimum long term credit rating, the Council has in the past set a minimum short term rating. However, it is the long term rating that is the ultimate driver of creditworthiness of financial institutions. In the capital markets, the perceived credit standing of an institution is referenced by its long-term rating which represents an agency's view of an institution's capacity to honour its financial obligations and its vulnerability to foreseeable events. The long-term rating is the principal driver of a bank's funding costs and perceived creditworthiness internationally, and hence market sentiment towards that institution. Given the prominence of long term ratings, it is proposed to remove the reference to short term ratings in the lending list criteria.