

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

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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 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 3, Investments in Section 4
 - Prudential Indicators – these are detailed throughout the report and summarised in Annex 2
 - MRP Statement – Section 7
- 1.6 The Council originally adopted the CIPFA Code of Practice for Treasury Management in May 2002. At its meeting on 22nd February 2010 the Council adopted the revised CIPFA Code of Practice for Treasury Management. The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices. All treasury activity will comply with relevant statute, guidance and accounting standards. Adoption of the Code is one of the Prudential Indicators.

2. Balance Sheet and Treasury Position

- 2.1 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, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1: Treasury Position

	31/03/2011 Estimate £000	31/03/2012 Estimate £000	31/03/2013 Estimate £000	31/03/2014 Estimate £000
General Fund CFR	281,164	268,465	261,365	252,521
HRA CFR	488,046	488,046	488,046	488,046
Total CFR	769,210	756,511	749,411	740,567
Less: Existing Profile of Borrowing & Other Long Term Liabilities	(713,976)	(667,476)	(625,476)	(578,780)
Cumulative Maximum External Borrowing Requirement	55,234	89,035	123,935	161,787
Unearmarked Balances & Reserves	(10,500)	(10,500)	(10,500)	(10,500)
Cumulative Net Borrowing Requirement /(Investments)	44,734	78,535	113,435	151,287

- 2.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Annex 1. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.
- 2.3 Estimates of Capital Expenditure:
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 2: Capital Expenditure

	2010/11 Approved £000	2010/11 Projected Out-turn £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Non-HRA	95,956	102,167	42,671	40,000	30,426
HRA	52,642	55,033	17,526	14,843	13,543
Total	148,598	157,200	60,197	54,843	43,969

2.4 Capital expenditure is expected to be financed as follows:

Table 3: Capital Financing

	2010/11 Approved £000	2010/11 Projected Out-turn £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Capital receipts	5,520	3,537	11,358	7,863	5,650
Other grants & contributions	4,943	10,343	7,786	12,977	14,088
Government Grants	67,160	73,291	24,724	12,008	6,966
Major Repairs Allowance	12,909	14,137	13,543	13,543	13,543
Reserves / Revenue contributions	7,757	7,391	2,486	3,114	200
Total Financing	98,289	108,699	59,897	49,505	40,447
Borrowing	50,309	48,501	300	5,338	3,522
Total	148,598	157,200	60,197	54,843	43,969

2.5 Incremental Impact of Capital Investment Decisions:

As an indicator of affordability the table overleaf 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.

2.6 As reported in the treasury monitoring reports during 2010/11 the indicators set in February 2010 are actually the total of Band D council tax and housing rent, rather than the incremental impact relating to capital decisions. This is the reason the approved figures for 2010/11 are much higher than future years. The reduction between 2010/11 and 2011/12 onwards is due to the reduction in the amount of capital expenditure being funded through borrowing shown in Table 3 above.

Table 4: Incremental Impact of Capital Investment Decisions

	2010/11 Approved £	2010/11 Projected Actual £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	1,184.32	9.96	1.00	1.88	1.95
Increase in Average Weekly Housing Rents	83.20	0.01	0.02	0.00	0.00

- 2.7 Reform to the Council Housing Subsidy System: CLG consulted on proposals to reform the council housing subsidy system in July 2010. The consultation proposed a removal of the housing subsidy system by offering a one-off reallocation of debt. More detail of the new system was announced in January 2011, and it will be introduced in the Localism Bill to enable the new system to start in 2012. For the Council, this is expected to equate to a reduction in debt of £241m. CLG proposes to settle this by repaying a proportion of each of the Council's PWLB loans.
- 2.8 The estimate for interest payments in 2011/12 is £41.3m and for interest receipts is £0.28m. 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 5: Ratio of Financing Costs to Net Revenue Stream

	2010/11 Approved %	2010/11 Projected Actual %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	4.67	5.52	4.95	4.04	3.72
HRA	33.39	31.36	31.90	29.87	28.84

3. Borrowing Strategy

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

Table 6: Authorised Limit for External Debt

	2010/11 Approved £000	2010/11 Projected Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Borrowing	860,455	663,811	861,544	857,239	851,332
Other Long-term Liabilities	39,545	50,165	85,335	80,110	74,606
Total	900,000	713,976	946,879	937,349	925,938

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

Table 7: Operational Boundary for External Debt

	2010/11 Approved £000	2010/11 Projected Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Borrowing	835,455	663,811	761,544	757,239	751,332
Other Long-term Liabilities	39,545	50,165	56,890	53,407	49,737
Total	875,000	713,976	818,434	810,646	801,069

- 3.4 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 the General Purposes Committee.
- 3.5 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
 - Local authority stock issues
 - Structured finance

- 3.6 The PWLB issued a new set of lending arrangements on 20th October 2010, following the Spending Review announcement, which increase the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing. Despite this, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:
- Variable rate borrowing
 - Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
 - Long-term Maturity loans, where affordable.
- 3.7 Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium and long term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The continued use of internal resources in lieu of borrowing is likely to remain the most cost effective means of financing capital expenditure during 2011/12.
- 3.8 PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Council's treasury management adviser and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt. The Council's existing PWLB variable rate loan borrowed prior to 20th October 2010 will be maintained on its initial terms and is not subject to the additional increased margin for new variable rate loans.
- 3.9 The Council has £125m of loans which are LOBO loans (Lender's Options Borrower's Option) of which £75m of loans are currently in or will be in their call period in 2011/12. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB. The default response will however be early repayment without penalty.
- 3.10 The rationale for considering any possible rescheduling opportunities during the year would be one or more of the following:
- Savings in interest costs with minimal risk
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.

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

- 3.11 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.
- 3.12 The Council's existing level of fixed interest rate exposure is 98.5% and variable rate exposure is 1.5%, however it is recommended that the limits in place for 2010/11 are maintained in future to retain flexibility.

Table 8: Fixed and Variable Interest Rate Exposure

	2010/11 Approved %	2010/11 Actual %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	98.5	100	100	100
Upper Limit for Variable Interest Rate Exposure	40	1.5	40	40	40

- 3.13 The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

Table 9: Maturity Structure of fixed rate borrowing

	Lower Limit %	Upper Limit %
under 12 months	0	25
12 months & within 2 years	0	25
2 years & within 5 years	0	50
5 years & within 10 years	0	60
10 years & within 20 years	0	60
20 years & within 30 years	0	60
30 years & within 40 years	0	60
40 years & within 50 years	0	60
50 years & above	0	60

4. Investment Policy and Strategy

- 4.1 Guidance from the Communities and Local Government Department (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set.
- 4.2 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.
- 4.3 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. 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 General Purposes Committee as part of the quarterly reports.
- 4.4 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. They are then subjected to continual monitoring, in conjunction with the Council's treasury management advisers, to ensure that they continue to meet the high standard set. The range of information used to determine creditworthiness is:
- Credit Ratings (minimum long-term A+ for counterparties; AAA for countries)
 - Credit Default Swaps (where quoted)
 - Net Debt as a Percentage of GDP for countries
 - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
 - Share Prices
 - Macro-economic indicators
 - Corporate developments, news and articles, market sentiment.
- 4.5 If the monitoring reveals any concern about a counterparty's creditworthiness, it will be removed from the lending list with immediate effect. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office – either in the Debt Management Account Deposit Facility (DMADF) or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

- 4.6 The changes to the list of specified counterparties proposed for 2011/12 are:
- Addition of Nat West and Standard Chartered to the list of UK banks
 - Deposits with non UK banks
- There is also a proposed addition to the list of instruments which can be used:
- UK Treasury Bills issued by the Debt Management Office
- 4.7 The Council's treasury management advisers have recommended the addition of UK banks Standard Chartered and Nat West following an improvement in the ratings of the former and the confirmation of the long term future of the latter within the RBS Group. UK Treasury Bills are issued by HM Treasury's Debt Management Office and so are guaranteed by the UK government. They are proposed for inclusion as they offer a better rate of return than the DMADF, albeit with less flexibility on term, with the same level of security.
- 4.8 In order to provide a wider range of creditworthy counterparties for the Council to invest with, it is proposed to add a limited range of non-UK banks to the Council's lending list. The banks it is proposed to add are all based in AAA rated European countries and have minimum long term credit ratings of A+ and in fact many are more highly rated than the UK banks already on the list.
- 4.9 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.
- 4.10 To protect against a prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments may be considered within the limits proposed for Non-Specified Investments (see Annex 4). If longer-term investments are considered they would include:
- Term Deposits with counterparties rated at least A+ (or equivalent)
 - Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.
- 4.11 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Table 10: Upper Limit for total principal sums invested over 364 days

	2010/11 Approved	2010/11 Projected Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
	£000	£000	£000	£000	£000
Principal	60,000	0	20,000	20,000	20,000

5. Outlook for Interest Rates

- 5.1 The economic interest rate outlook provided by the Council's treasury management adviser, Arlingclose Ltd, is attached at Annex 3. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.
- 5.2 The interest rate outlook shows that short term rates are expected to remain significantly lower than long term rates throughout 2011/12. For this reason it is anticipated that cash balances will be kept at a minimum throughout the financial year as the "cost of carry" will be significant for any borrowing taken before capital expenditure is incurred.

6. Balanced Budget Requirement

- 6.1 The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

7. MRP Statement

- 7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.
- 7.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method
- 7.3 MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

- 7.4 It is a requirement for Council to approve the MRP statement before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.
- 7.5 It is proposed the Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure. This is a continuation of current practice. MRP in respect of leases brought onto the Balance Sheet under the IFRS-based Code of Practice will match the annual principal repayment for the associated deferred liability.

8. Monitoring and Reporting

- 8.1 General Purposes Committee will receive a quarterly report on treasury management activity and performance. This will include monitoring of the prudential indicators.
- 8.2 It is a requirement of the Treasury Management Code of Practice that an outturn report on treasury activity is produced after the financial year end, no later than 30th September. This will be reported to General Purposes Committee in advance of Cabinet and Council. Audit Committee will be responsible for the scrutiny of treasury management activity and practices.
- 8.3 Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise. Senior management hold monthly meetings with the officers undertaking treasury management to monitor activity and to ensure all policies and procedures are being followed.

9. Other Issues

- 9.1 Training
CIPFA's Treasury Management Code of Practice requires the Director of Corporate 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.
- 9.2 Regular training sessions are arranged for members to keep their knowledge up to date. This included a Treasury Management Strategy training session on 11th January 2011.

9.3 Investment Consultants

The CLG's Guidance on local government investments recommends 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."

- 9.4 The Council has appointed Arlingclose Limited to provide information and advice about the types of investment the Council should undertake and the counterparties that should be used. Quarterly service review meetings take place to monitor the service and the appointment is formally reviewed in accordance with the Council's Contract Standing Orders.

ANNEX 1

Current and Projected Portfolio Position

	Current Portfolio £000	31 Mar 11 Estimate £000	31 Mar 12 Estimate £000	31 Mar 13 Estimate £000	31 Mar 14 Estimate £000
External Borrowing:					
Fixed Rate – PWLB	460,806	490,806	529,106	530,106	527,706
Fixed Rate – Market	125,005	125,005	125,005	125,005	125,005
Variable Rate – PWLB	20,000	48,000	0	0	0
Variable Rate – Market	0	0	0	0	0
Total External Borrowing	605,811	663,811	654,111	655,111	652,711
Existing long-term liabilities	2,625	2,539	2,442	2,334	2,213
IFRS Long Term Liabilities:					
- PFI	43,026	40,929	38,957	36,884	34,705
- Operating Leases	7,351	6,697	6,010	5,288	4,530
Total Gross External Debt	658,813	713,976	701,520	699,617	694,159
Total Investments	20,000	20,000	40,000	40,000	40,000
(Net Borrowing Position)/ Net Investment position	(638,813)	(693,976)	(661,520)	(659,617)	(654,159)

ANNEX 2

Summary of Prudential Indicators

No.	Prudential Indicator	2011/12		2012/13		2013/14	
CAPITAL INDICATORS							
1	Capital Expenditure	£60,197k		£54,843k		£43,969k	
2	Ratio of financing costs to net revenue stream						
	General Fund	4.95%		4.04%		3.72%	
	HRA	31.90%		29.87%		28.84%	
3	Capital Financing Requirement	£756,511k		£749,411k		£740,567k	
4	Incremental impact of capital investment decisions						
	Band D Council Tax	£1.00		£1.88		£1.95	
	Weekly Housing rents	£0.02		£0.00		£0.00	
TREASURY MANAGEMENT LIMITS							
5	Authorised Limit	£946,879k		£937,349k		£925,938k	
	Operational Boundary	£818,434k		£810,646k		£801,069k	
6	Upper limit – fixed rate exposure	100%		100%		100%	
	Upper limit – variable rate exposure	40%		40%		40%	
7	Maturity structure of borrowing (U: upper, L: lower)	L	U	L	U	L	U
	under 12 months	0%	25%	0%	25%	0%	25%
	12 months & within 2 yrs	0%	25%	0%	25%	0%	25%
	2yrs & within 5 yrs	0%	50%	0%	50%	0%	50%
	5 yrs & within 10 yrs	0%	60%	0%	60%	0%	60%
	10 yrs & within 20 yrs	0%	60%	0%	60%	0%	60%
	20 yrs & within 30 yrs	0%	60%	0%	60%	0%	60%
	30 yrs & within 40 yrs	0%	60%	0%	60%	0%	60%
	40 yrs & within 50 yrs	0%	60%	0%	60%	0%	60%
	50 yrs & above	0%	60%	0%	60%	0%	60%
8	Sums invested for more than 364 days	£20,000k		£20,000k		£20,000k	
9	Adoption of CIPFA Treasury Management Code of Practice	√		√		√	

ANNEX 3

Arlingclose's Economic and Interest Rate Forecast

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Official Bank Rate											
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50	3.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-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
Central case	2.00	2.25	2.75	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central case	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-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
Central case	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

Arlingclose's comments and assumptions

- The recovery in growth is likely to be slow, uneven and more "Square root" than "V" shaped.
- The initial reaction to the Comprehensive Spending Review is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Gilts will remain volatile as the growth versus headline inflation debate escalates.

Specified and Non Specified Investments

Specified Investments identified for use by the Council

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

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

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

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- AAA-rated Money Market Funds with a Constant Net Asset Value
- Treasury-Bills (T-Bills)
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks

** Investments in these instruments would only be undertaken on advice from the Council’s treasury management adviser.*

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

Long-term minimum: A+ (Fitch); A1 (Moody’s); A+ (S&P)

Short-term minimum: F1 (Fitch); P-1 (Moody’s); A-1 (S&P)

The Council will also take into account the range of information on investment counterparties detailed in section 4.4.

Specified investments will be made within the limits detailed in the following table. The limits stated will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m	Maximum period of investment*
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	6 months
Gilts	UK	Debt Management Office (DMO)	No limit	364 days
T-Bills	UK	Debt Management Office (DMO)	No limit	6 months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£30m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£20m per bank or banking group	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in European countries** with a Sovereign Rating of at least AAA from all three credit rating agencies.	£15m per bank or banking group	6 months
Bonds issued by multilateral development banks	Non-UK	Counterparties rated AAA in which the UK is a shareholder	£15m per counterparty	364 days
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	Constant Net Asset Value Money Market Funds (MMFs)	£20m per MMF***; Group limit £100m	Instant Access

* The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness.

** Investments in any one country's banks will be limited to a maximum of 10% of the total investments at the time of investment, excluding the UK.

*** Limit per MMF to be no more than 0.5% of the Money Market Fund's total assets.

Non-Specified Investments proposed for use by the Council

Non-specified investments are those which do not meet the criteria for specified investments. The non-specified investments which it is proposed the Council will consider are investments for longer than one year with the same counterparties as specified investments. None of these will constitute capital expenditure. Non-specified investments will form a maximum of 50% of the total portfolio at any time.

	In-house use	Maximum maturity	Capital expenditure?
<ul style="list-style-type: none">▪ Term Deposits with UK banks and building societies▪ Certificates of Deposit with UK banks and building societies	✓	5 years	No
<ul style="list-style-type: none">▪ Gilts▪ Bonds issued by multilateral development banks	✓ (on advice from treasury adviser)	5 years	No

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.

ANNEX 5

Lending List of counterparties for investments

This is the proposed list of counterparties which the Council can lend to. The list will be kept under constant review and counterparties removed if the process described in 4.4 and 4.5 raises any concerns about their credit worthiness.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Gilts, Treasury Bills, Term Deposits	UK	Debt Management Office (Term deposits with Debt Management Account Deposit Facility DMADF)	No limit
Term Deposits	UK	Other Local Authorities	£30m per local authority
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Santander UK Plc (Banco Santander Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Bank of Scotland (Lloyds Banking Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Lloyds TSB (Lloyds Banking Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Barclays Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Clydesdale Bank (National Australia Bank Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	HSBC Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Nationwide Building Society	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	NatWest (RBS Group)	20

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Royal Bank of Scotland (RBS Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Standard Chartered Bank	20
Term Deposits/ Call Accounts/ Certificates of Deposit	Finland	Nordea Bank	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	BNP Paribas	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Credit Agricole CIB (Credit Agricole Group)	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Credit Agricole SA (Credit Agricole Group)	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Société Générale	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Germany	Deutsche Bank AG	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Netherlands	ING Bank NV	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Netherlands	Rabobank	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Sweden	Svenska Handelsbanken	15

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/ Call Accounts/ Certificates of Deposit	Switzerland	Credit Suisse	15
Money Market Funds	Ireland	BlackRock Institutional Sterling Liquidity Fund	20
Money Market Funds	Ireland	BlackRock Institutional Sterling Government Liquidity Fund	12
Money Market Funds	Ireland	Goldman Sachs Liquid Reserves Fund	20
Money Market Funds	Ireland	Henderson Global Investors Liquid Assets Sterling Fund (now managed by DB Advisors – a name change is likely during 2011/12)	15
Money Market Funds	Ireland	Invesco Short Term Investments Company Sterling Liquidity Portfolio	5
Money Market Funds	Luxembourg	J.P. Morgan Asset Management Sterling Liquidity Fund	20
Money Market Funds	Ireland	RBS Global Treasury Fund - Sterling	20
Bonds	European Union	European Investment Bank	15
Bonds	European Union	European Bank for Reconstruction and Development	15
Bonds	Worldwide	International Bank for Reconstruction and Development (the World Bank)	15