

**Haringey** Council

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| <b>Report for:</b> | Corporate Committee<br>23 <sup>rd</sup> January 2012 | <b>Item<br/>number</b> |  |
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| <b>Title:</b> | Treasury Management Strategy Statement 2012/13 –<br>2014/15 |
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| <b>Report authorised<br/>by :</b> | Director of Corporate Resources<br><br><i>J. Pave</i> 12/1/12 |
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| <b>Lead Officer:</b> | Nicola Webb, Head of Finance – Treasury & Pensions<br><a href="mailto:nicola.webb@haringey.gov.uk">nicola.webb@haringey.gov.uk</a><br>020 8489 3726 |
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| <b>Ward(s) affected:</b> N/A | <b>Report for Non Key Decision</b> |
|------------------------------|------------------------------------|

**1. Describe the issue under consideration**

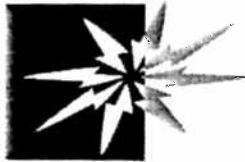
- 1.1 To present the proposed Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2014/15 to this Committee prior to them being scrutinised by Overview & Scrutiny Committee and presented to full Council for final approval.

**2. Cabinet Member Introduction**

- 2.1 Not applicable.

**3. Recommendations**

- 3.1 That the proposed Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 21014/15 at Appendix 1 be recommended to Council for approval as part of the Financial Planning report.
- 3.2 That the proposed Treasury Policy Statement is recommended to Council for approval.



#### **4. Other options considered**

4.1 None.

#### **5. Background information**

5.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

5.2 In November 2011 a revised version of the CIPFA Treasury Management Code of Practice was published. The main change is a requirement to update the Council's Treasury Policy Statement to make reference to the Council's high level approach to borrowing and investment.

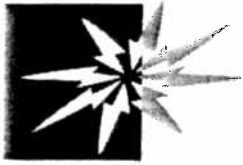
5.3 The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by full Council. Following the Governance review in 2011, Corporate Committee is responsible for formulating the Treasury Management Strategy Statement for recommendation to full Council through Overview and Scrutiny Committee and in consultation with the Cabinet Member for Finance.

#### **6. Comments of the Chief Financial Officer and Financial Implications**

6.1 The approval of a Treasury Management Strategy Statement and prudential indicators are requirements of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code. The proposed strategy of minimising borrowing and continuing to make use of internal balances not only minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is low. Given the current low short term interest rate environment is expected to continue throughout 2012/13 and beyond, the interest rate risk associated with delaying borrowing is assessed to be low.

#### **7. Head of Legal Services and Legal Implications**

7.1 The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislation. The Council is required to determine and keep under review its



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borrowing and in complying with this requirement it must have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" as published by CIPFA from time to time. In addition, the Council adopted the CIPFA Treasury Management Code of Practice in May 2002.

- 7.2 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement. In considering the report Members must take into account the expert financial advice available in within it and any further oral advice given at the meeting of the Committee.

## **8. Equalities and Community Cohesion Comments**

- 8.1 There are no equalities issues arising from this report.

## **9. Head of Procurement Comments**

- 9.1 Not applicable.

## **10. Policy Implications**

- 10.1 None applicable.

## **11. Use of Appendices**

- 11.1 Appendix 1: Draft Treasury Management Strategy Statement 2012/13 – 2014/15.

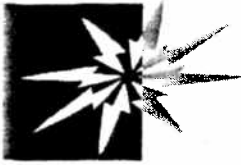
## **12. Local Government (Access to Information) Act 1985**

- 12.1 Not applicable.

## **13. Proposed Treasury Management Strategy Statement**

- 13.1 The proposed Treasury Management Strategy Statement set out in Appendix 1 will be reported to Overview & Scrutiny Committee for scrutiny before being presented to full Council as part of the Financial Planning report for 2012/13 to 2014/15.

- 13.2 In 2012/13 a continuation of very low short term interest rates compared to medium and long term rates is expected throughout the year. This means that there will be an on-going "cost of carry" if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council plans to continue to run a strategy of keeping



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cash balances low and invested short term and to borrow only when required.

- 13.3 The introduction of self financing of housing will have a significant impact on the borrowing strategy during 2012/13. It is expected that debt of £232m will be repaid by the government as part of the conversion and then the General Fund and HRA debt will be split into two pools. The splitting is being done for clarity and transparency, however management of both debt pools will remain the responsibility of the Section 151 officer of the Council.
- 13.4 As reported to the Committee in the quarter 3 update, most UK banks have been downgraded by the credit rating agencies to a level below the minimum long term credit rating of A+ set in the Treasury Management Strategy Statement for 2011/12. The credit rating agencies' reasoning for the downgrades was a lower level of expected support from governments in the future. In the case of the UK, it is on the basis of the Independent Banking Commission's proposed reforms, which are not likely to be introduced for some years. Given the timescale of the reforms and the substantial government ownership of RBS and Lloyds Bank, it is proposed a lower minimum long term credit rating of A- is applied to UK banks in 2012/13. A- is still within the banding described as "high credit quality" by the rating agencies. The higher long term rating of A+ will continue to be applied to non UK banks.
- 13.5 Given the uncertainties in the Eurozone at the present time, it is proposed that the list of non UK banks is extended for 2012/13 to include banks recommended by the Council's treasury management advisers in Canada, USA and Australia. It is proposed a minimum credit rating of A+ is applied to these banks, as well as a maximum maturity limit of 6 months and a limit of £15m in line with the European banks. In addition to this it is proposed to only invest in banks based in countries with an AAA sovereign credit rating and to limit the exposure to any country outside the UK to 15% of the portfolio.
- 13.6 The proposed limits for time and amounts are maximum limits, and the list of counterparties is the broadest range which can be used. However operationally the limits applied and counterparties used are reviewed regularly and where necessary restricted in response to any concerns about creditworthiness to ensure security of investments remains the priority for the Council.

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

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Annexes

1. Treasury Policy Statement
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  - A: General Fund Pool
  - B: HRA Pool
3. Summary of Prudential Indicators
4. Arlingclose's Economic and Interest Rate Forecast
5. Specified Investments
6. Lending List of counterparties for investments

## **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:
  - An updated Treasury Policy Statement – discussed in Section 2 and set out in Annex 1
  - Treasury Management Strategy - Borrowing in Section 5, Investments in Section 6
  - Prudential Indicators – these are detailed throughout the report and summarised in Annex 3
  - 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 were reflected in updated versions of all policies and procedures in early 2010.
- 2.2 In November 2011 a further revised version of the Code of Practice was published. There are a number of minor amendments which have been incorporated into this draft Treasury Management Strategy. The main change is a requirement to update the Council's Treasury Policy

Statement to make reference to the Council's high level approach to borrowing and investment. A proposed revised version of this Statement based on CIPFA's recommended form of words is attached at Annex 1.

### **3. Self financing of Housing**

- 3.1 The removal of the housing subsidy system is being implemented through a one-off reallocation of debt. The settlement of the reallocation is expected to take place on 28<sup>th</sup> March 2012 and will result in the Council having an expected reduction in PWLB debt of £232m achieved by a proportional repayment of each PWLB loan outstanding.
- 3.2 In line with guidance from CIPFA, it is proposed as part of the budget report that the Council's debt portfolio is split into two pools – one for HRA and one for General Fund. The information which follows in this report reflects the proposed method of splitting the debt.
- 3.3 Although it is proposed that there will be two debt pools going forward, all the loans remain a debt of the overall Council and therefore the responsibility of the Section 151 officer. This strategy statement covers the management of both pools of debt. In the management of the two pools of debt, it may be beneficial for both pools if at times internal transfers take place.
- 3.4 In order to ensure that any internal transfer is equitable to both the General Fund and the HRA, it is proposed that an internal premium or discount policy be applied. This would be calculated using prevailing PWLB methodology and applying a discount rate based on the mid-point of the spread between the PWLB new borrowing and premature repayment rates relevant at the day of the exchange. However, although the CIPFA Treasury Management Code of Practice recommends such an approach, the legislation covering what can be charged to the HRA does not currently allow premiums to be charged. Therefore the policy will only be applied if the legislation is changed to enable it to be done or if a transfer can be carried out equitably without charging a premium.
- 3.5 HRA cash balances will continue to be managed in one pool with the Council's balances. Interest will be allocated to the HRA on the basis of the monthly cash balance and the average rate of interest earned across the combined pool.

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

- 4.1 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*

|  | 31/03/2012<br>Estimate<br>£000 | 31/03/2013<br>Estimate<br>£000 | 31/03/2014<br>Estimate<br>£000 | 31/03/2015<br>Estimate<br>£000 |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| General Fund CFR   | 307,087                        | 298,765                        | 288,768                        | 275,302                        |
| Less: Share of Existing External Borrowing & Other Long Term Liabilities | 211,682                        | 172,818                        | 168,558                        | 160,464                        |
| Internal Borrowing   | 95,405                         | 90,405                         | 85,405                         | 80,405                         |
| Cumulative Net Borrowing Requirement                                     | 0                              | 28,542                         | 34,805                         | 34,433                         |

*Table 1b: Treasury Position – HRA*

|  | 31/03/2012<br>Estimate<br>£000 | 31/03/2013<br>Estimate<br>£000 | 31/03/2014<br>Estimate<br>£000 | 31/03/2015<br>Estimate<br>£000 |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| HRA CFR  | 274,893                        | 274,893                        | 274,893                        | 274,893                        |
| Less: Share of Existing External Borrowing & Other Long Term Liabilities | 266,893                        | 207,002                        | 191,834                        | 183,741                        |
| Internal Borrowing   | 8,000                          | 8,000                          | 8,000                          | 8,000                          |
| Cumulative Net Borrowing Requirement                                     | 0                              | 59,891                         | 75,059                         | 83,152                         |

- 4.2 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 5), 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.
- 4.3 Ensuring that net physical borrowing (i.e. net of investments) does not exceed the CFR is a key indicator of prudence. There was no difficulty meeting this requirement in 2011-12, nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.
- 4.4 It is a requirement for the HRA CFR to remain within 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 that no problems with achieving this are anticipated due



to the fact no additional capital expenditure funded through borrowing is planned in the coming three financial years.

*Table 2: HRA Debt Cap*

|              | 31/03/2012<br>Estimate<br>£000 | 31/03/2013<br>Estimate<br>£000 | 31/03/2014<br>Estimate<br>£000 | 31/03/2015<br>Estimate<br>£000 |
|--------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| HRA CFR      | 274,893                        | 274,893                        | 274,893                        | 274,893                        |
| HRA Debt cap | 329,577                        | 329,577                        | 329,577                        | 329,577                        |
| Headroom     | 54,684                         | 54,684                         | 54,684                         | 54,684                         |

- 4.4 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*

|         | 2011/12<br>Approved<br>£000 | 2011/12<br>Projected<br>Out-turn<br>£000 | 2012/13<br>Estimate<br>£000 | 2013/14<br>Estimate<br>£000 | 2014/15<br>Estimate<br>£000 |
|---------|-----------------------------|--|-----------------------------|-----------------------------|-----------------------------|
| General | 45,324                      | 64,679                                   | 37,084                      | 25,889                      | 13,074                      |
| HRA     | 34,550                      | 34,556                                   | 44,692                      | 30,703                      | 43,732                      |
| Total   | 79,874                      | 99,235                                   | 81,776                      | 56,592                      | 56,806                      |

- 4.5 Capital expenditure is expected to be financed as follows:

*Table 4: Capital Financing*

|                                  | 2011/12<br>Approved<br>£000 | 2011/12<br>Projected<br>Out-turn<br>£000 | 2012/13<br>Estimate<br>£000 | 2013/14<br>Estimate<br>£000 | 2014/15<br>Estimate<br>£000 |
|----------------------------------|-----------------------------|--|-----------------------------|-----------------------------|-----------------------------|
| Capital receipts                 | 11,358                      | 13,258                                   | 6,950                       | 8,550                       | 4,678                       |
| Other grants & contributions     | 7,786                       | 10,354                                   | 7,667                       | 4,181                       | 2,960                       |
| Government Grants                | 24,724                      | 37,342                                   | 23,818                      | 17,871                      | 32,636                      |
| Major Repairs Allowance          | 12,420                      | 10,856                                   | 0                           | 0                           | 0                           |
| Reserves / Revenue contributions | 2,486                       | 5,224                                    | 33,547                      | 25,990                      | 16,532                      |
| Total Financing                  | 58,774                      | 77,034                                   | 71,982                      | 56,592                      | 56,806                      |
| Borrowing                        | 21,100                      | 22,201                                   | 9,794                       | 0                           | 0                           |
| Total                            | 79,874                      | 99,235                                   | 81,776                      | 56,592                      | 56,806                      |

- 4.6 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*

|  | 2011/12<br>Approved<br>£ | 2011/12<br>Projected<br>Actual<br>£ | 2012/13<br>Estimate<br>£ | 2013/14<br>Estimate<br>£ | 2014/15<br>Estimate<br>£ |
|--|--------------------------|-------------------------------------|--------------------------|--------------------------|--------------------------|
| Increase in Band D Council Tax           | 1.00                     | 2.88                                | 0.94                     | 0.74                     | 0.34                     |
| Increase in Average Weekly Housing Rents | 0.02                     | 0.01                                | 0.21                     | 0.19                     | 0.13                     |

- 4.7 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*

|              | 2011/12<br>Approved<br>% | 2011/12<br>Projected<br>Actual<br>% | 2012/13<br>Estimate<br>% | 2013/14<br>Estimate<br>% | 2014/15<br>Estimate<br>% |
|--------------|--------------------------|-------------------------------------|--------------------------|--------------------------|--------------------------|
| General Fund | 4.95                     | 4.50                                | 2.70                     | 2.64                     | 2.47                     |
| HRA          | 31.90                    | 26.79                               | 15.35                    | 14.86                    | 13.97                    |

## 5. Borrowing Strategy

- 5.1 A breakdown of the Council's current and expected external borrowing plus other long-term liabilities is shown in Annex 2. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.
- 5.2 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*

|                                | 2011/12<br>Approved<br>£000 | 2011/12<br>Projected<br>Actual<br>£000 | 2012/13<br>Estimate<br>£000 | 2013/14<br>Estimate<br>£000 | 2014/15<br>Estimate<br>£000 |
|--------------------------------|-----------------------------|--|-----------------------------|-----------------------------|-----------------------------|
| Borrowing                      | 861,544                     | 390,495                                | 639,706                     | 633,944                     | 624,825                     |
| Other Long-term<br>Liabilities | 85,335                      | 88,080                                 | 151,114                     | 143,491                     | 135,666                     |
| Total                          | 946,879                     | 478,575                                | 790,820                     | 777,435                     | 760,491                     |

- 5.3 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*

|                                | 2011/12<br>Approved<br>£000 | 2011/12<br>Projected<br>Actual<br>£000 | 2012/13<br>Estimate<br>£000 | 2013/14<br>Estimate<br>£000 | 2014/15<br>Estimate<br>£000 |
|--------------------------------|-----------------------------|--|-----------------------------|-----------------------------|-----------------------------|
| Borrowing                      | 761,544                     | 390,495                                | 539,706                     | 533,944                     | 524,825                     |
| Other Long-term<br>Liabilities | 56,890                      | 88,080                                 | 100,742                     | 95,660                      | 90,444                      |
| Total                          | 818,434                     | 478,575                                | 640,448                     | 629,604                     | 615,269                     |

- 5.4 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.
- 5.5 The proposed limits have reduced between 2011/12 and 2012/13 due to the reduction of debt arising from the removal of the housing subsidy system. The 2011/12 projected actual shown is at 31<sup>st</sup> March 2012 after the debt has been repaid in respect of housing.
- 5.6 The revised CIPFA Treasury Management Code of Practice has introduced a new treasury prudential indicator. It is the upper limit on the proportion of net debt to gross debt and it's purpose is to highlight a situation where the Council is planning to borrow in advance of need. The Council has no plans to do this. CIPFA has acknowledged that this indicator is flawed, because as it currently stands it does not achieve the stated aim. However it is a requirement for the Council to agree the indicator in its current form pending CIPFA's review of it. Once that review is completed a more suitable indicator will be reported to Council. The

table below shows the indicator as required by the Code i.e. the gross and net debt the Council expects to hold at the end of the coming financial years. The debt figures are the CFR figures from table 1 and the investment figures are estimates of the level of investments in each year.

*Table 9: Limit on proportion of net debt to gross debt*

|                                | 2011/12<br>Projected<br>Actual<br>£000 | 2012/13<br>Estimate<br>£000 | 2013/14<br>Estimate<br>£000 | 2014/15<br>Estimate<br>£000 |
|--------------------------------|--|-----------------------------|-----------------------------|-----------------------------|
| Borrowing                      | 390,495                                | 489,706                     | 483,944                     | 474,825                     |
| Other Long-term<br>Liabilities | 88,080                                 | 83,952                      | 79,717                      | 75,370                      |
| Gross Debt                     | 478,575                                | 573,658                     | 563,661                     | 550,195                     |
| Less: Investments              | 20,000                                 | 40,000                      | 40,000                      | 40,000                      |
| Net Debt                       | 458,575                                | 533,658                     | 523,661                     | 510,195                     |

- 5.7 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 4 indicates that an acute difference between short and longer term interest rates is expected to continue until 2014. 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.
- 5.8 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 2012-13, there are no plans to replace this internal borrowing with external borrowing. However due to debt maturities in 2012-13, external borrowing of approximately £88m will be required.
- 5.9 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.
- 5.10 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

- 5.11 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 an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.
- 5.12 The Council has £125m of loans which are LOBO loans (Lender’s Options Borrower’s Option) of which £50m of loans are currently in or will be in their call period in 2012/13. 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.
- 5.13 Following the repayment of PWLB debt in March 2012 as a result of the housing reform, LOBOs will make up a larger proportion of the total external debt portfolio, increasing from 20% to 32%. This increases the Council’s refinancing risk further. Any LOBO called will be discussed with the 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.
- 5.14 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
  - 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.

- 5.15 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.
- 5.16 The Council's existing level of fixed interest rate exposure is 98.2% and variable rate exposure is 1.8%, however it is recommended that the limits in place for 2011/12 are maintained in future to retain flexibility.

*Table 10: Fixed and Variable Interest Rate Exposure*

|   | 2011/12<br>Approved<br>% | 2011/12<br>Actual<br>% | 2012/13<br>Estimate<br>% | 2013/14<br>Estimate<br>% | 2014/15<br>Estimate<br>% |
|---|--------------------------|------------------------|--------------------------|--------------------------|--------------------------|
| Upper Limit for<br>Fixed Interest Rate<br>Exposure    | 100                      | 98.2                   | 100                      | 100                      | 100                      |
| Upper Limit for<br>Variable Interest<br>Rate Exposure | 40                       | 1.8                    | 40                       | 40                       | 40                       |

- 5.17 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. The same set of limits will apply to both the General Fund and HRA debt pools. The proposed short term limits are higher than in 2011/12 to give flexibility while short term borrowing rates continue to be relatively low.

*Table 11: Maturity Structure of fixed rate borrowing*

|                            | Lower Limit<br>% | Upper Limit<br>% |
|----------------------------|------------------|------------------|
| under 12 months            | 0                | 50               |
| 12 months & within 2 years | 0                | 50               |
| 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               |

## **6. Investment Policy and Strategy**

- 6.1 Guidance from the Communities and Local Government Department (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set.
- 6.2 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.
- 6.3 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 5 and the list of proposed counterparties is shown in Annex 6. In keeping with the strategy of maintaining low investment balances while internally borrowing, it is proposed only to use specified investments during 2012/13. 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.
- 6.4 Money markets remain in a volatile state, with little economic growth in most developed countries and ongoing concerns about the creditworthiness of eurozone countries. The Council's investment strategy is framed against this backdrop of uncertainty.
- 6.5 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. In 2011-12 the minimum long term credit rating applied is A+, however many of the Council's counterparties have been downgraded below this. This has meant these counterparties have had to be removed from the Council's lending list.
- 6.6 The credit rating agencies' reasoning for the downgrades was a lower level of expected support from governments in the future. In the case of the UK, it is on the basis of the Independent Banking Commission's proposed reforms, which are not likely to be introduced for some years. Given the timescale of the reforms and the substantial government ownership of RBS and Lloyds Bank, it is proposed a lower minimum long term credit rating of A- is applied to UK banks. A- is still within the banding described as "high credit quality" by the rating agencies. The higher long term rating of A+ will continue to be applied to non UK banks.
- 6.7 The Council banks with Nat West, which is currently rated A. Even if the credit rating falls below the minimum of A-, it is proposed that Nat West will continue to be used for short term liquidity arrangements (overnight and weekend investments) and business continuity arrangements.

- 6.8 Given the uncertainties in the Eurozone at the present time, it is proposed that the list of non UK banks is extended for 2012/13 to include banks recommended by the Council's treasury management advisers in Canada, USA and Australia. It is proposed a minimum credit rating of A+ is applied to these banks, as well as a maximum maturity limit of 6 months and a limit of £15m in line with the European banks. In addition to this it is proposed to only invest in banks based in countries with an AAA sovereign credit rating and to limit the exposure to any country outside the UK to 15% of the portfolio.
- 6.9 The proposed lending list in Annex 6 is divided into two. The first section shows counterparties which currently meet the proposed credit criteria and the Council would be able to place investments with. The second section shows counterparties which do not currently meet the proposed credit criteria and therefore would only be used if their credit rating improved.
- 6.10 All counterparties on the list are 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 and credit rating watches
  - 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.
- 6.11 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.)
- 6.12 In order to diversify the investment portfolio, investments will be placed with a range of approved investment counterparties. Maximum investment levels with each counterparty are set out in Annex 5 will ensure prudent diversification is achieved.
- 6.13 Money Market Funds (MMFs) will be utilised and whilst they provide good diversification the Council will also seek to diversify any exposure by utilising more than one MMF. The Council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.



- 6.14 The Council is required to set 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. Given the current interest rate environment, the Council will not make investments for more than 364 days.

*Table 12: Upper Limit for total principal sums invested over 364 days*

|           | 2011/12<br>Approved | 2011/12<br>Projected<br>Actual | 2012/13<br>Estimate | 2013/14<br>Estimate | 2014/15<br>Estimate |
|-----------|---------------------|--------------------------------|---------------------|---------------------|---------------------|
|           | £000                | £000                           | £000                | £000                | £000                |
| Principal | 20,000              | 0                              | 0                   | 0                   | 0                   |

## **7. Use of Financial Instruments for the Management of Risks**

- 7.1 The revised CIPFA Treasury Management Code of Practice requires the Council to state if and how it will use financial instruments, such as derivatives. Currently, local authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives. Should this position change, the Council may develop a detailed and robust risk management framework governing the use of derivatives, but such a change in strategy would require full Council approval.

## **8. Outlook for Interest Rates**

- 8.1 The economic interest rate outlook provided by the Council's treasury management adviser, Arlingclose Ltd, is attached at Annex 4. 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.
- 8.2 The interest rate outlook shows that short term rates are expected to remain significantly lower than long term rates throughout 2012/13 and beyond. As discussed in section 4, 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.

## **9. Balanced Budget Requirement**

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

## 10. MRP Statement

- 10.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.
- 10.2 The four MRP options available are:  
Option 1: Regulatory Method  
Option 2: CFR Method  
Option 3: Asset Life Method  
Option 4: Depreciation Method
- 10.3 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).
- 10.4 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.
- 10.5 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.

## 11. Other Issues

### Monitoring & Reporting

- 11.1 Corporate Committee will receive quarterly reports on treasury management activity and performance. This will include monitoring of the prudential indicators.
- 11.2 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 30<sup>th</sup> September. This will be reported to Corporate Committee, shared with the Cabinet member for Finance and then reported to full Council. Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.
- 11.3 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.

### **Training**

- 11.4 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.
- 11.5 Training was a common issue raised by the various reviews of treasury management carried out at a national and local level post Iceland three years ago. Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Regular training sessions are arranged for members to keep their knowledge up to date.

### **Investment Consultants**

- 11.6 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."
- 11.7 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.

**Treasury Policy Statement**

1. The Council defines its treasury management activities as:  
“The management of the organisation’s investments and cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and pursuit of optimum performance consistent with those risks.”
2. 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. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
4. The Council’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
5. The Council’s primary objective in relation to investments is the security of capital. The liquidity or accessibility of the Council’s investments followed by the yield earned on investments are important but are secondary considerations.

## ANNEX 2

**Detail of Treasury Position****A: General Fund Pool**

|  | 31 Mar 12<br>Estimate<br>£000 | 31 Mar 13<br>Estimate<br>£000 | 31 Mar 14<br>Estimate<br>£000 | 31 Mar 15<br>Estimate<br>£000 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Existing External Borrowing commitments: |                               |                               |                               |                               |
| PWLB                                     | 69,792                        | 56,300                        | 49,275                        | 45,528                        |
| Market loans                             | 39,566                        | 39,566                        | 39,566                        | 39,566                        |
| Local Authorities                        | 14,244                        | 0                             | 0                             | 0                             |
| Total External Borrowing                 | 123,602                       | 95,866                        | 88,841                        | 85,094                        |
| Long Term Liabilities                    | 88,080                        | 83,952                        | 79,717                        | 75,370                        |
| Total Gross External Debt                | 211,682                       | 179,818                       | 168,558                       | 160,464                       |
| CFR                                      | 307,087                       | 298,765                       | 288,768                       | 275,302                       |
| Internal Borrowing                       | 95,405                        | 90,405                        | 85,405                        | 80,405                        |
| Cumulative Borrowing requirement         | 0                             | 28,542                        | 34,805                        | 34,433                        |

**B: HRA Pool**

|  | 31 Mar 12<br>Estimate<br>£000 | 31 Mar 13<br>Estimate<br>£000 | 31 Mar 14<br>Estimate<br>£000 | 31 Mar 15<br>Estimate<br>£000 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Existing External Borrowing commitments: |                               |                               |                               |                               |
| PWLB                                     | 150,703                       | 121,568                       | 106,400                       | 98,307                        |
| Market loans                             | 85,434                        | 85,434                        | 85,434                        | 85,434                        |
| Local Authorities                        | 30,756                        | 0                             | 0                             | 0                             |
| Total External Borrowing                 | 266,893                       | 207,002                       | 191,834                       | 183,741                       |
| CFR                                      | 274,893                       | 274,893                       | 274,893                       | 274,893                       |
| Internal Borrowing                       | 8,000                         | 8,000                         | 8,000                         | 8,000                         |
| Cumulative Borrowing requirement         | 0                             | 59,891                        | 75,059                        | 83,152                        |

Summary of Prudential Indicators

| No.                       | Prudential Indicator                               | 2012/13 | 2013/14 | 2014/15 |
|---------------------------|--|---------|---------|---------|
| <b>CAPITAL INDICATORS</b> |  |         |         |         |
| 1                         | Capital Expenditure                                | £000    | £000    | £000    |
|                           | General Fund                                       | 37,084  | 25,889  | 13,074  |
|                           | HRA  | 44,692  | 30,703  | 43,732  |
|                           | TOTAL  | 81,776  | 56,592  | 56,806  |
| 2                         | Ratio of financing costs to net revenue stream     | %       | %       | %       |
|                           | General Fund                                       | 2.70    | 2.64    | 2.47    |
|                           | HRA  | 15.35   | 14.86   | 13.97   |
| 3                         | Capital Financing Requirement                      | £000    | £000    | £000    |
|                           | General Fund                                       | 298,765 | 288,768 | 275,302 |
|                           | HRA  | 274,893 | 274,893 | 274,893 |
|                           | TOTAL  | 573,658 | 563,661 | 550,195 |
| 4                         | Incremental impact of capital investment decisions | £       | £       | £       |
|                           | Band D Council Tax                                 | 0.94    | 0.74    | 0.34    |
|                           | Weekly Housing rents                               | 0.21    | 0.19    | 0.13    |

| No.                               | Prudential Indicator                                    | 2012/13 | 2013/14 | 2014/15 |     |    |     |
|-----------------------------------|---|---------|---------|---------|-----|----|-----|
| <b>TREASURY MANAGEMENT LIMITS</b> |   |         |         |         |     |    |     |
| 5                                 | Borrowing limits  | £000    | £000    | £000    |     |    |     |
|                                   | Authorised Limit  | 790,820 | 777,435 | 760,491 |     |    |     |
|                                   | Operational Boundary                                    | 640,448 | 629,604 | 615,269 |     |    |     |
| 6                                 | HRA Debt Cap  | £000    | £000    | £000    |     |    |     |
|                                   | Headroom  | 54,684  | 54,684  | 54,684  |     |    |     |
| 7                                 | Net debt to gross debt                                  | £000    | £000    | £000    |     |    |     |
|                                   | Limit on proportion of net debt to gross debt           | 533,658 | 523,661 | 510,195 |     |    |     |
| 8                                 | Upper limit – fixed rate exposure                       | 100%    | 100%    | 100%    |     |    |     |
|                                   | Upper limit – variable rate exposure                    | 40%     | 40%     | 40%     |     |    |     |
| 9                                 | Maturity structure of borrowing<br>(U: upper, L: lower) | L       | U       | L       | U   | L  | U   |
|                                   | under 12 months   | 0%      | 50%     | 0%      | 50% | 0% | 50% |
|                                   | 12 months & within 2 yrs                                | 0%      | 50%     | 0%      | 50% | 0% | 50% |
|                                   | 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% |
| 10                                | Sums invested for more than 364 days                    | 0       | 0       | 0       |     |    |     |
| 11                                | Adoption of CIPFA Treasury Management Code of Practice  | √       | √       | √       |     |    |     |





### Specified Investments

It is proposed that the Council only uses specified investments during 2012/13. 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)

*\* 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).

For UK banks and building societies:

*Long-term minimum: A- (Fitch); A3 (Moody’s); A- (S&P)*

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

For other counterparties:

*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 6.7.

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

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.

| <b>Instrument</b>  | <b>Country/<br/>Domicile</b>           | <b>Counterparty</b>   | <b>Maximum<br/>Counterparty<br/>Limits £m</b>       | <b>Maximum<br/>period of<br/>investment</b> |
|--|--|---|---|---|
| Term Deposits  | UK                                     | Debt Management Account<br>Deposit Facility (DMADF),<br>Debt Management Office<br>(DMO)   | No limit  | 6 months                                    |
| Gilts  | UK                                     | Debt Management Office<br>(DMO)   | No limit  | 364 days                                    |
| T-Bills  | UK                                     | Debt Management Office<br>(DMO)   | No limit  | 6 months                                    |
| Term Deposits/<br>Call Accounts                                | UK                                     | Other UK Local Authorities  | £30m per local<br>authority                         | 364 days                                    |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | UK                                     | Counterparties rated at least<br>A- Long Term and F1 Short<br>Term (or equivalent)  | £20m per<br>bank or<br>banking group                | 364 days                                    |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Non-UK                                 | Counterparties rated at least<br>A+ Long Term and F1 Short<br>Term (or equivalent) in<br>countries <sup>1</sup> with a Sovereign<br>Rating of at least AAA from<br>all three credit rating<br>agencies <sup>2</sup> . | £15m per<br>bank or<br>banking group                | 6 months                                    |
| AAA-rated<br>Money Market<br>Funds                             | UK/Ireland/<br>Luxembourg<br>domiciled | Constant Net Asset Value<br>Money Market Funds<br>(MMFs)  | £20m per<br>MMF <sup>3</sup> ; Group<br>limit £100m | Instant<br>Access                           |

- 1 Investments in any one country's banks will be limited to a maximum of 15% of the total investments at the time of investment, excluding the UK.
- 2 The Sovereign rating restriction applies only to non UK counterparties.
- 3 Limit per MMF to be no more than 0.5% of the Money Market Fund's total assets.

## ANNEX 6

### Lending List of counterparties for investments

This is the proposed list of counterparties which the Council can lend to, providing the counterparties meet the requirements set out in Annex 5 at the time of investment. The list is split into counterparties who currently meet the proposed criteria and those who currently do not, but are included so that they can be used if their circumstances change during the year. The list will be kept under constant review and counterparties removed if the process described in 6.7 and 6.8 raises any concerns about their credit worthiness.

### Counterparties currently meeting proposed criteria

| <b>Instrument</b>   | <b>Country/<br/>Domicile</b> | <b>Counterparty</b>  | <b>Maximum<br/>Counterparty<br/>Limit £m</b> |
|---|------------------------------|--|--|
| 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/<br>Call Accounts/<br>Certificates of Deposit | UK                           | Barclays Bank Plc  | 20   |
| Term Deposits/<br>Call Accounts/<br>Certificates of Deposit | UK                           | HSBC Bank Plc  | 20   |
| Term Deposits/<br>Call Accounts/<br>Certificates of Deposit | UK                           | Lloyds Banking Group including Lloyds TSB and Bank of Scotland                             | 20   |
| Term Deposits/<br>Call Accounts/<br>Certificates of Deposit | UK                           | Nationwide Building Society  | 20   |
| Term Deposits/<br>Call Accounts/<br>Certificates of Deposit | UK                           | RBS Group including Nat West Bank and Royal Bank of Scotland                               | 20   |
| Term Deposits/<br>Call Accounts/<br>Certificates of Deposit | UK                           | Standard Chartered Bank  | 20   |

| <b>Instrument</b>  | <b>Country/<br/>Domicile</b> | <b>Counterparty</b>  | <b>Maximum<br/>Counterparty<br/>Limit £m</b> |
|--|------------------------------|--|--|
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Australia                    | Australia & New Zealand Banking Group                      | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Australia                    | Commonwealth Bank of Australia                             | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Australia                    | National Australia Bank (National<br>Australia Bank Group) | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Australia                    | Westpac Banking Group                                      | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Canada                       | Bank of Montreal   | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Canada                       | Bank of Nova Scotia  | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Canada                       | Canadian Imperial Bank of Commerce                         | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Canada                       | Royal Bank of Canada                                       | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Canada                       | Toronto-Dominion Bank                                      | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Sweden                       | Svenska Handelsbanken                                      | 15   |

| <b>Instrument</b>  | <b>Country/<br/>Domicile</b> | <b>Counterparty</b>   | <b>Maximum<br/>Counterparty<br/>Limit £m</b> |
|--------------------|------------------------------|---|--|
| Money Market Funds | Ireland                      | BlackRock Institutional Sterling Liquidity Fund                     | 20   |
| Money Market Funds | Ireland                      | BlackRock Institutional Sterling Government Liquidity Fund          | 20   |
| Money Market Funds | Ireland                      | Goldman Sachs Liquid Reserves Fund                                  | 20   |
| Money Market Funds | Ireland                      | Deutsche Bank Managed Sterling Fund                                 | 20   |
| Money Market Funds | Ireland                      | Invesco Short Term Investments Company Sterling Liquidity Portfolio | 20   |
| Money Market Funds | Luxembourg                   | J.P. Morgan Asset Management Sterling Liquidity Fund                | 20   |
| Money Market Funds | Ireland                      | RBS Global Treasury Fund - Sterling                                 | 20   |

**Counterparties which do not currently meet the proposed credit criteria**

| <b>Instrument</b>  | <b>Country/<br/>Domicile</b> | <b>Counterparty</b>  | <b>Maximum<br/>Counterparty<br/>Limit £m</b> |
|--|------------------------------|--|--|
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | UK                           | Clydesdale Bank<br>(National Australia Bank Group)<br><i>Bank credit rating below minimum</i>  | 20   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Finland                      | Nordea Bank Finland<br><i>Sovereign credit rating on negative<br/>rating watch</i>   | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | France                       | BNP Paribas<br><i>Sovereign credit rating on negative<br/>rating watch</i>   | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | France                       | Credit Agricole Group including Credit<br>Agricole CIB and Credit Agricole SA<br><i>Sovereign credit rating on negative<br/>rating watch</i> | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | France                       | Société Générale<br><i>Sovereign credit rating on negative<br/>rating watch</i>  | 15   |

| <b>Instrument</b>  | <b>Country/<br/>Domicile</b> | <b>Counterparty</b>   | <b>Maximum<br/>Counterparty<br/>Limit £m</b> |
|--|------------------------------|---|--|
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Germany                      | Deutsche Bank AG<br><i>Sovereign credit rating on negative<br/>rating watch</i> | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Netherlands                  | ING Bank NV<br><i>Sovereign credit rating on negative<br/>rating watch</i>      | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Netherlands                  | Rabobank<br><i>Sovereign credit rating on negative<br/>rating watch</i>         | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | Switzerland                  | Credit Suisse<br><i>Bank credit rating below minimum</i>                        | 15   |
| Term Deposits/<br>Call Accounts/<br>Certificates of<br>Deposit | USA                          | JP Morgan Bank<br><i>Sovereign credit rating below minimum</i>                  | 15   |