

- 4.4 It is a requirement for the HRA CFR to remain with the limit of indebtedness or “debt cap” set by the Department of Communities and Local Government at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years’ debt predictions for the HRA debt pool to increase.

Table 3: HRA Debt Cap

	31/03/2012	31/03/2013	31/03/2014	31/03/2015
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
HRA CFR	272,854	272,854	272,854	272,854
HRA Debt cap	327,538	327,538	327,538	327,538
Headroom	54,684	54,684	54,684	54,684

- 4.5 Table 4 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 4: Capital Expenditure

	2011-12	2011-12	2012-13	2013-14	2014-15
	Approved	Projected	Estimate	Estimate	Estimate
		Out-turn			
	£000	£000	£000	£000	£000
General	45,324	51,005	44,350	27,429	13,974
HRA	34,550	34,955	43,514	31,881	43,732
Total	79,874	85,960	87,864	59,310	57,706

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

Table 5: Capital Financing

	2011-12	2011-12	2012-13	2013-14	2014-15
	Approved	Projected	Estimate	Estimate	Estimate
		Out-turn			
	£000	£000	£000	£000	£000
Capital receipts	11,358	10,597	11,130	9,300	5,128
Other grants & contributions	7,786	6,512	9,903	4,121	3,160
Government Grants	24,724	29,057	28,138	15,851	30,336
Major Repairs Allowance	12,420	14,336	0	0	0
Reserves / Revenue contributions	2,486	4,612	33,219	28,018	16,782
Total Financing	58,774	65,114	82,390	57,290	55,406
Borrowing	21,100	20,846	5,474	2,020	2,300
Total	79,874	85,960	87,864	59,310	57,706

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

Table 6: Incremental Impact of Capital Investment Decisions

	2011-12 Approved	2011-12 Projected Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
	£	£	£	£	£
Increase in Band D Council Tax	1.00	2.88	1.31	0.85	0.39
Increase in Average Weekly Housing Rents	0.02	0.01	0.20	0.20	0.13

- 4.8 The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Table 7: Ratio of Financing Costs to Net Revenue Stream

	2011-12 Approved	2011-12 Projected Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
	%	%	%	%	%
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 8: Authorised Limit for External Debt

	2011-12 Approved	2011-12 Projected Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
	£000	£000	£000	£000	£000
Borrowing	861,544	389,456	637,803	630,539	623,720
Other Long-term Liabilities	85,335	88,080	151,114	143,491	135,666
Total	946,879	477,536	788,917	774,030	759,386

- 5.3 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow 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 9: Operational Boundary for External Debt

	2011-12 Approved	2011-12 Projected Actual	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
	£000	£000	£000	£000	£000
Borrowing	761,544	389,456	537,803	530,539	523,720
Other Long-term Liabilities	56,890	88,080	100,742	95,660	90,444
Total	818,434	477,536	638,545	626,199	614,164

- 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 31st 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 its 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 tables 2a & 2b and the investment figures are estimates of the level of investments in each year.

Table 10: Limit on proportion of net debt to gross debt

	2011-12 Projected Actual £000	2012-13 Estimate £000	2013-14 Estimate £000	2014-15 Estimate £000
Borrowing	389,456	487,803	480,539	473,720
Other Long-term Liabilities	88,080	83,952	79,717	75,370
Gross Debt	477,536	571,755	560,256	549,090
Less: Investments	20,000	40,000	40,000	40,000
Net Debt	457,536	531,755	520,256	509,090

- 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 11: Fixed and Variable Interest Rate Exposure

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

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

Table 12: Maturity Structure of fixed rate borrowing

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

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. Given this backdrop, it is proposed to limit the proposed counterparty list to UK institutions and Money Market Funds only.
- 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 institutions. A- is still within the banding described as "high credit quality" by the rating agencies.
- 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 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)
 - Sovereign support mechanisms/potential support from a well-resourced parent institution
 - Share prices
 - Macro-economic indicators
 - Corporate developments, news and articles, market sentiment.
- 6.9 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.)

- 6.10 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.
- 6.11 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.
- 6.12 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 13: Upper Limit for total principal sums invested over 364 days

	2011-12 Approved	2011-12 Projected Actual	2012-13 Estimate	2013-14 Estimate	2014-15 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 30th 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.

* * * * *

Annex 1

Treasury Policy Statement

1. The Council defines its treasury management activities 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 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.

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

	31 Mar 12 Estimate £000	31 Mar 13 Estimate £000	31 Mar 14 Estimate £000	31 Mar 15 Estimate £000
Existing External Borrowing commitments:				
PWLB	70,212	63,068	55,197	50,988
Market loans	39,992	39,992	39,992	39,992
Local Authorities	14,398	0	0	0
Total External Borrowing	124,602	103,060	95,189	90,980
Long Term Liabilities	88,080	83,952	79,717	75,370
Total Gross External Debt	212,682	187,012	174,906	166,350
CFR	307,087	298,901	287,402	276,236
Internal Borrowing	94,405	82,305	77,305	72,305
Cumulative Borrowing requirement	0	29,584	35,191	37,581

B: HRA Pool

	31 Mar 12 Estimate £000	31 Mar 13 Estimate £000	31 Mar 14 Estimate £000	31 Mar 15 Estimate £000
Existing External Borrowing commitments:				
PWLB	149,244	134,058	117,326	108,380
Market loans	85,008	85,008	85,008	85,008
Local Authorities	30,602	0	0	0
Total External Borrowing	264,854	219,066	202,334	193,388
CFR	272,854	272,854	272,854	272,854
Internal Borrowing	8,000	7,500	7,500	7,500
Cumulative Borrowing requirement	0	46,288	63,020	71,966

Summary of Prudential Indicators

No.	Prudential Indicator	2012-13	2013-14	2014-15
CAPITAL INDICATORS				
1	Capital Expenditure	£000	£000	£000
	General Fund	44,350	27,429	13,974
	HRA	43,514	31,881	43,732
	TOTAL	87,864	59,310	57,706
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	298,901	287,402	276,236
	HRA	272,854	272,854	272,854
	TOTAL	571,755	560,256	549,090
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	1.31	0.85	0.39
	Weekly Housing rents	0.20	0.20	0.13

No.	Prudential Indicator	2012-13		2013-14		2014-15	
TREASURY MANAGEMENT LIMITS							
5	Borrowing limits	£000		£000		£000	
	Authorised Limit	788,917		774,030		759,386	
	Operational Boundary	638,545		626,199		614,164	
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	531,755		520,256		509,090	
8	Upper limit – fixed rate exposure	100%		100%		100%	
	Upper limit – variable rate exposure	40%		40%		40%	
9	Maturity structure of borrowing (U: upper, L: lower)	L	U	L	U	L	U
	under 12 months	0%	40%	0%	40%	0%	40%
	12 months & within 2 yrs	0%	35%	0%	35%	0%	35%
	2yrs & within 5 yrs	0%	35%	0%	35%	0%	35%
	5 yrs & within 10 yrs	0%	35%	0%	35%	0%	35%
	10 yrs & within 20 yrs	0%	35%	0%	35%	0%	35%
	20 yrs & within 30 yrs	0%	35%	0%	35%	0%	35%
	30 yrs & within 40 yrs	0%	35%	0%	35%	0%	35%
	40 yrs & within 50 yrs	0%	50%	0%	50%	0%	50%
	50 yrs & above	0%	50%	0%	50%	0%	50%
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 UK banks and building societies
 - AAA-rated Money Market Funds with a Constant Net Asset Value
 - Treasury-Bills (T-Bills)
 - *Certificates of deposit with UK 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).

Long-term minimum: A- (Fitch); A3 (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 6.8.

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.

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
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

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

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 will be kept under constant review and counterparties removed if the process described in 6.8 and 6.9 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	Barclays Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	HSBC Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Lloyds Banking Group including Lloyds TSB and Bank of Scotland	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Nationwide Building Society	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	RBS Group including Nat West Bank and Royal Bank of Scotland	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Standard Chartered Bank	20
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