Agenda Item 6b)
REVISED

Policy & Resources Committee – 13 February 2012

Medium Term Financial Strategy

Purpose of report
The purpose of this report is to set out the Council's Medium Term Financial Strategy (MTFS) 2012-16 and outline the draft Revenue Budget 2012/13, Capital Programme 2012/22 and Annual Treasury Management Strategy 2012/13 for consideration

Attachment(s)
Appendix 1 - MTFS 2012/13 – 2015/16
Appendix 2 - Draft Revenue Budget Proposals 2012/13
Appendix 3 - Draft Capital programme 2012/13 – 2021/22
Appendix 4 - Draft Annual Treasury Management Strategy 2012/13

1.0 Background

1.1 This report encompasses the Medium Term Financial Strategy 2012/13 to 2015/16, Draft Revenue Budget 2012/13 and Draft Capital Programme 2012/21 to provide an overarching view of the Council's financial position. It contains minor amendments to the report considered by Finance Working Party on 2 February as a result of comments made at that meeting.

1.2 Medium Term Financial Strategy
Each year the Council reviews and considers its financial position and develops a model for forecasting the likely position over the medium term of 4 years. The resulting documents are referred to as the Medium Term Financial Strategy (MTFS). This is an important part of the framework for future budget setting decisions. The process identifies the costs of providing existing services as well as any additional services or enhancements the Council deems as priorities. From these figures, the affordability of these plans can be assessed with reference to the likely impact they will have on taxation levels and the levels of reserves and balances.

1.3 The MTFS includes our capital spending plans as these have a direct and sometimes significant impact on our revenue expenditure. The process for proposing new capital schemes as well as reviewing existing budget provision will be the same as for revenue budgets.

1.4 The MTFS also includes:

- known and/or estimated receipts from central government in the form of core funding, through Revenue Support Grant and our share of the distributed NNDR pot, and grants such as New Homes Bonus;
- estimated income from Council Tax, based on our estimated Council Tax base and assumptions as to the level of Council Tax increases over the period; and
- the balancing figure of transfers to or from the Council's revenue reserves.

1.5 The overall purpose of the MTFS is to enable the Council to manage its future finances and ensure that its plans are sustainable. This is becoming increasingly difficult because of the severity of government spending cuts, recent freezes of Council Tax, high levels of inflation and some significant uncertainties over future costs and income. This report explores some of these details and sets out the MTFS based on a set of assumptions about those key variables.

1.6 Following the reports to the Finance Working Party on 16 November 2011 setting out the historical budget position of ongoing deficits and the extremely uncertain financial position over the next few years, two workshops were held with Members, on 19 December 2011 and 19 January 2012, to establish their views on the options in respect of:

- The capital programme, and how to fund it
- Use of New Homes Bonus
- Council Tax
- Revenue spending

1.7 This report sets out the draft revenue and capital budgets for 2012/13 based on various assumptions and on the steer given at the workshop on 19 January.

1.8 The Council will approve its revenue and capital budgets for 2012/13 and set the Council Tax for the year at its meeting on 29 February 2012.

1.9 The process for approving the budget is started by the Finance Working Party, which proposes the budget requirement to the Policy and Resources Committee. In proposing the budget the Working Party also effectively proposes the necessary level of Council Tax increase to fund it. Policy and Resources Committee is required to approve the budget and recommend it to Council for final approval and the level of council tax to be set.

2.0 Context

2.1 The Corporate Plan includes an aspiration for the Council's budget to break even in 2012/13. The changing economic context in which the council operates has not made this possible.

2.2 Since April 2009, it has been clear that significant efficiencies and cost reductions needed to be made in anticipation of cuts to government funding. The process initiated in 2009 and carried on ever since has been very successful. Savings estimated at nearly £3.0m have been achieved such that, even allowing for inflation running at around 5% in the last year, the net cost of services has decreased by nearly £1.7m, from £11.7m in 2009/10 to an estimated £10.0m in 2012/13.

2.3 Unfortunately, those savings have been offset by cuts in government funding over that period, from £6.5m in 2009/10 (£7.1m including Housing & Planning Delivery Grant) to £5.1m in 2012/13 (£6.0m including New Homes Bonus).

2.4 At the workshop on 19 January 2012 Members gave a steer as to how the deficit would be tackled in the medium-term. These decisions have been factored into the MTFS projections.

3.0 **Medium Term Financial Strategy (MTFS) 2012/13 to 2015/16**

3.1 The MTFS set out the direction of travel for the Council's financial position over the next four years. The starting point for the MTFS is the draft budget for 2012/13, which includes a number of assumptions about the position in that year. There are then a further number of assumptions that need to be made in calculating the numbers for future years. There are always risks in making assumptions, and there are currently significant uncertainties, given the fragility of the economy and the political decisions that will need to be taken by the coalition government, that make financial planning beyond 2012/13 extremely difficult. These are set out in section 4 below.

3.2 The Council has some critical decisions to take about its future financial position during the process of setting its Budget for 2012/13 to ensure its future financial viability as a going concern in the long term. The two specific challenges that must be addressed are:

- How to finance its capital programme over the period of the MTFS and beyond. The Council's capital reserves are due to become fully depleted in 2012/13. If the Council were to continue its current strategy of funding the existing capital programme from reserves, by using the remaining capital reserves and then using revenue reserves, it would have negative reserves during 2013/14. The Council cannot have negative reserves so action needs to be taken to address this.
- How to ensure revenue spending is financed by sustainable sources of income. For the past few years the Council's revenue spend has been funded by an increasing contribution from reserves to balance the budget. As reserves are a one-off funding source this is not a prudent or sustainable position for the medium term, particularly when the main funding source, Government funding, is reducing. The Council needs to reduce its on-going revenue spend in line with the resources it has available.

3.3 In addition to the above challenges, the financial strategy needs to free up a proportion of the New Homes Bonus funding from Government to re-invest in local communities, keep any borrowing that is required to finance capital investment to a minimum, and ensure the Council has a minimum level of reserves which is commensurate with the risks it faces over the medium term.

3.4 The Council's financial strategy for the medium term needs to:

"Ensure the financial position is stable and sustainable with resources focussed on its priorities"

The MTFS and Budget 2012/13 set out in this report have been developed to counter the financial challenges identified above.

3.5 Developing a Stable and Sustainable MTFS

The key to developing and delivering a stable and sustainable MTFS has been to engage with all members to ensure the best interests of the Council are taken into account when the Budget is set by Council on 29 February 2012. This engagement has been through two Member Workshops held on 19 December 2011 and 19 January 2012. The 1st workshop was used to raise awareness of the financial position facing the Council. The 2nd workshop set out the strategic financial choices open to members, and they made some "decisions in principle". The output from these workshops has been the driver behind the MTFS and draft Budget 2012/13 presented in this report.

3.6 MTFS 2012/13 to 2015/16

The MTFS that is presented in this report ensures that the financial position of the Council over the medium term will be both stable and sustainable, with its resources focussed on priorities. The key headlines of the MTFS are as follows:

- Capital Programme - the Council will invest up to £12m over the next 10 years, and the programme is fully funded.
- Revenue Budget - the Council will spend around £10m a year and will make savings or generate new income streams of £2.3m (of which £1.7m has already been identified) over the next four years to ensure it is efficient. The reliance on one-off funding from reserves will reduce over the MTFS period with a small surplus anticipated in 2015/16.
- Community Projects - the Council will set aside over £2m of New Homes Bonus over the next four years to fund investment in community projects and economic growth.
- Reserves - a minimum level of reserves of £2m will be established to ensure the Council can meet any unforeseen costs in the long term, and to manage the shorter-term risks of Government policy changes and delivering the challenging actions required to achieve a stable and sustainable financial position over the next four years. Once the shorter term risks have been managed and mitigated the minimum level can reduce to £1m.

The MTFS for the 4 years from 2012/13 to 2015/16, based on these assumptions, is set out in Appendix 1.

3.7 Delivering the MTFS

The MTFS requires a number of key deliverables to be achieved and implemented in order to achieve a stable and sustainable financial position for the Council. Key deliverables include implementing savings plans, identifying further savings, selling assets and determining which community projects the Council should invest in. All of these will need to be managed against a backdrop of further significant change to the Local Government sector. The Council will need to ensure project teams are established, that these teams are resourced to the right level and that members take future decisions that support the aim of maintaining a financially stable and sustainable Council.

4.0 Key Risks and assumptions

4.1 Employee costs

4.1.1 Following two years of pay freezes, it has been assumed in the draft revenue budget that a further freeze will be implemented for 2012/13. The Chancellor announced in his recent budget speech a cumulative limit of 2% on public sector pay increases for the two years 2012/13 and 2012/14. Beyond then, there is likely to be continued tension between the unions and the employers, and the level of future pay rises is unpredictable. The MTFS assumes a freeze in 2012/13 and increases of 2% per annum thereafter. This approach has yet to be agreed with unions and employees.

4.1.2 In recent years, employer contributions to pension costs have increased significantly in order to ensure that the scheme remains fully funded. It remains to be seen what impact the government’s proposed changes to the scheme will have.

4.2 Other costs

4.2.1 We have historically applied a range of inflation rates, generally from 2% to 4%, across cost categories such as transport, energy, contracts and general supplies. Inflation is currently running well ahead of these levels, which has meant greater variations than usual between our estimates and the actual costs incurred. We have assumed inflation levels as set out in existing contracts or up to 2%.

4.3 Borrowing Costs

4.3.1 The Council currently does not have any borrowing. However, to fund a capital investment programme which enables the Council to maintain its assets to provide its services, and to improve its assets to generate additional revenue savings, limited borrowing is likely to be required. The borrowing is anticipated to be temporary (1-2 years) as the Council seeks to realise the value of surplus buildings and land holdings to fund its capital spending over the medium term.

4.4 Investment income

4.4.1 The current low level of interest rates has resulted in significant reductions in our investment income. In fact, had interest rates remained at 2009 levels, we would be close to a balanced budget in 2012/13. Even a small increase in the base rate would result in a significant increase in income, although our spending over the years has resulted in a significant reduction in the amount of funds available to invest. We have assumed investment returns of 1% in 2012/13, increasing to 3% by 2015/16 as the economic position improves. It should be noted there are significant risks in estimating the rate at which the economic position will improve, and we have taken a relatively cautious view.

4.5 Council Tax base

4.5.1 The current rate of housing growth is much lower than the pre-recession rate. This makes it difficult to predict with confidence what the Council Tax base will be in future. This has a more significant impact now that it did in previous years because it not only affects the income we get from Council Tax but also the level of New Homes Bonus we receive. We have assumed increases in the base of 200 houses in 2012/13 and each subsequent year of the MTFS.

4.6 Council Tax increases

4.6.1 Council Tax has remained unchanged for two consecutive years. The Government provided financial compensation to the Council in return for a Council Tax freeze in 2011/12. This sum is £90k per year, and will be paid to us each year for the four years to 2014/15, although recently the Secretary of State for Communities & Local Government has suggested that it could continue beyond this time. The Government has made a similar offer for 2012/13, but the £90k would only be paid for one year.

4.6.2 Given the Council's current comparatively very low level of Council Tax, Members took the view at the workshop that it should be increased, but not by a significant amount. It is therefore assumed in the MTFS that we will increase Council Tax by 3.5% each year of the MTFS. This equates to the maximum amount currently permitted by the government without needing to undertake a referendum. Clearly, this assumption will need to be revisited in future years if the government changes the level above which a referendum is required.

4.6.3 This level of increase will raise around an extra £500k a year by 2015/16. This equates to an increase in the Band D tax of less than £5 a year.

4.7 Council Tax Benefit

4.7.1 The government is currently consulting on proposals to localise Council Tax Benefit (CTB). It has been described as the biggest change to the local taxation system since the introduction of the Community Charge. Included in the proposals is a 10% cut to the current level of total CTB subsidy, which would amount to about £460k for this Council. In addition, there is a requirement for councils to protect benefit payments to pensioners and to vulnerable groups (not yet defined). The likely impact of this would be that the Council would need to either:

- find the £460k cut from elsewhere in order to maintain the current level of payments to all current recipients;
- cut benefit to unprotected groups (the 'working poor') by around 23% in order to try and match total CTB payments to the reduced level of subsidy receivable. This would be likely to result in much higher levels of bad debts; or
- something in between.

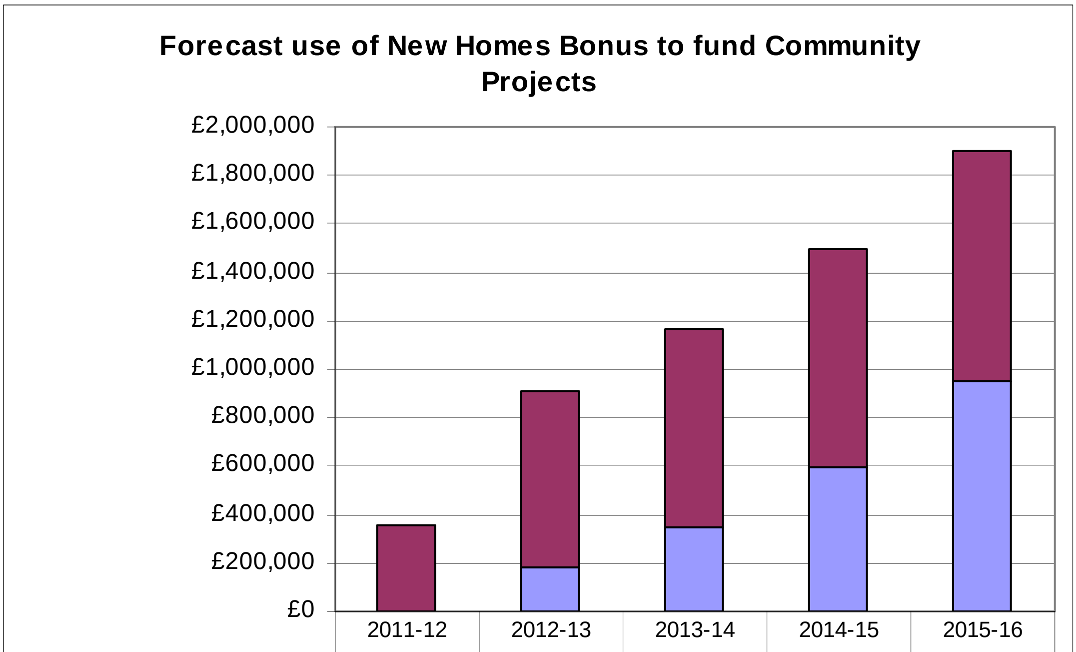
4.7.2 Because of the degree of uncertainty about the impact of this change, and the need for the Council to determine a policy in relation to it, the MTFS does not make any allowance for it. It should be noted that this is a key vulnerability in the projections because it is highly likely that there will be some negative impact as a result of the change to CTB, although it is not possible at the moment to quantify what that might be.

4.8 New Homes Bonus (NHB)

4.8.1 NHB was introduced in 2011/12 following the withdrawal of Housing & Planning Delivery Grant during 2010/11. It is based on the number of properties added to the Council Tax base in the year to 31 October, either as new homes or empty homes brought back into use. For 2011/12, the Council received NHB of £355k in respect of new homes for the year to 31 October 2010. NHB for each new home is payable for six years, so it will grow incrementally each year as additional properties are added to the Council Tax base. Note that NHB is not ring-fenced and can be used as general revenue income.

4.8.2 NHB for 2012/13 will be £906k, and the amounts for future years will depend on completions each year. As set out in section 4.5 above, there is great uncertainty as to how fast the housing market will recover and therefore what level of NHB we will receive in future years, but the level of NHB receivable in the future has been based on the estimated increase in Council tax base. (this includes an estimated 20 empty homes being brought back into use each year)

4.8.3 The minutes of the Finance Working Party (3 February 2011) recorded the intention to set aside 50% of the NHB grant towards investment in infrastructure for sustainable development. Given the Council's ongoing budget deficit and the views expressed by Members at the 19 January 2012 workshop about balancing the desire for future infrastructure investment with the need to maintain adequate levels of service delivery, it has been assumed that the level of NHB set aside for community projects over the period of the MTFS increases steadily from 20% in 2012/13 to 50% in 2015/16. The graph below sets out the forecast level of NHB over the MTFS and identifies the amount set aside for community projects:



	2011-12	2012-13	2013-14	2014-15	2015-16
Support Revenue Budget	£355,008	£724,844	£816,197	£897,634	£949,774
Invest in Community Projects	£0	£181,211	£349,799	£598,423	£949,774

4.8.4 The monies set aside for Community Projects will be targeted into those areas of the District where development has taken place and will also be used to promote economic growth across the District. A further report will be brought to Finance Working Party and Policy & Resources Committee later in 2012 on how the NHB could be allocated.

4.8.5 The initial announcement from the government only identified how NHB would be funded for the first two years of the scheme. There is a significant risk, given the lack of growth in the national economy, that core funding (Revenue Support Grant and NNDR reallocation) will be reduced in future to allow the government to afford to continue the scheme. This risk is reflected in the assumptions on core funding levels set out in section 4.9 below.

4.9 **Core Government Funding**

4.9.1 The large reductions in Revenue Support Grant (RSG) and NNDR in 2011/12 and 2012/13 reflected the savings required over the life of the 2010 Spending Review (SR10).

4.9.2 However, while those cuts were 'front-loaded', the economic situation continues to be very difficult and the government needs to find a way of funding NHB in future years. It is therefore likely that the RSG will be reduced further in 2013/14 and 2014/15. In his Autumn Statement in 2011 the Chancellor announced he expected the public sector funding position seen in SR10 to continue for 2015/16. The MTFS assumes reductions of 5% in each year of the MTFS from the previous year's figure, with grant remaining constant in cash terms thereafter.

4.9.3 It should be noted that the government is undertaking a review of the formula and methodology for pooling and re-distributing business rates. It is not known what the impact of these changes may be. Initial guidance indicates that councils will be no worse off in the short term, but the details are far from clear and the Council cannot assume that it will benefit from this just because this is a growth area.

5.0 Draft Revenue Budget 2012/13

5.1 The draft revenue budget for 2012/13 is set out in summary in Appendix 1, and detailed proposals for service budgets are set out in detail in Appendix 2.

5.2 The continued excellent efforts of Heads of Service and their teams to reduce spending has reduced budgeted total service expenditure by almost £0.8m compared to the forecast outturn for 2011/12 (including one-off items and the exceptional costs of planning appeals in the year). Following Members' steer to use 80% of New Homes Bonus to support spending in 2012/13, and to increase Council Tax by 3.5%, the projected deficit for next year is less than £550k, compared to over £1m in 2011/12.

5.3 Draft Revenue Budget 2012/13

5.3.1 The Council plans to have a total net spend on its services of £9,974k and a Budget Requirement of £9,633k in 2012/13. A summary of the draft revenue budget for 2012/13 is set out below:

Revised Budget 2011/12 £		**Draft Budget 2012/13 £**
543,240	Central Services to the Public	424,380
4,292,050	Cultural, Environmental and Planning Services	3,720,530
4,640,830	Departmental Central Support Services	4,540,440
195,990	Housing Services	183,770
61,440	Highways Roads & Transport Services	66,430
437,850	Corporate and Democratic Core	432,570
586,030	Non-Distributable Costs	606,020
10,757,430	**Total Net Service Expenditure**	**9,974,140**
-1,070,803	Amount to be met from Reserves	-545,399
0	Community Projects	181,211
-135,000	Interest Received & Paid	23,160
9,551,627	**Budget Requirement**	**9,633,112**

Appendix 1 shows how the draft revenue budget is financed.

5.3.2 The total service net expenditure in the draft revenue budget for 2012/13 is £783k lower then the revised budget approved for 2011/12. This is due to the following changes:

	£k
Revised Revenue Budget Net Service Expenditure 2011/12	10,757
Service Pressures & Budget Increases	325
Savings & Additional Income (excl. Government Funding & Council Tax)	(1,108)
Draft Revenue Budget Net Service Expenditure	**9,974**

A full analysis of the changes is shown in Appendix 2.

5.3.3 The impact of achieving £1,108k of savings has led to the Council reducing its use of reserves to finance the budget to £545k, compared to the budgeted £1,071k in 2011/12. This is part of a strategy over the period of the MTFS to ensure the Council's finances are stable and sustainable. Over the period of the MTFS the contribution from reserves to fund the revenue budget will continue to reduce and is planned to be a small surplus in 2015/16.

5.4 Government Funding

5.4.1 The **Formula Grant** settlement announced in January 2012 saw the Council's Revenue Support Grant and NNDR grant for 2012/13 reduce by £641k compared to that for 2011/12, from £5.473m to £4.832m. This equates to an 11.7% reduction, and a cumulative reduction of £1.828m (27.5%) since 2010/11.

5.4.2 The Council received £355k in **New Homes Bonus** in 2011/12 and we have been advised that we will receive £906k next year. Of this, 20% (£181k) has been set aside for investment in community projects and the balance (£725k) is being used to help balance the budget.

5.5 Council Tax

5.5.1 Members carefully considered at each of the budget workshops what level of Council Tax rise would be appropriate for 2012/13 and beyond. In particular they noted:

- The Council's current level of tax relative to that of other District Councils – 187th out of 201 (in the bottom 7%) nationally, and the lowest in Northamptonshire.
- The financial impact of various levels of Council Tax increase on both the Council and its taxpayers.
- The government's offer of a one-off £90k payment in exchange for a freeze in 2012/13.

5.5.2 The consensus at the 19 January workshop was that an increase up to the maximum amount that the Government considers not to be excessive (i.e. an increase of no more than 3.5%) was:

- justified in order to help maintain services in the face of significant cuts in government funding
- reasonable for taxpayers, despite the current economic circumstances, because of the very small impact it would have on the overall bill.

It was noted that a proposed increase above 3.5% would trigger a referendum.

5.5.3 Subsequent to the workshops a number of councils across the country have indicated publicly they are also considering such an increase in council tax. The Government has responded to this by reiterating to councils they should take up the Government's offer of the council tax freeze grant and that any small breach of an increase over the 3.5% will result in a referendum being triggered. The Government has not put this change into statute and has not provided complete clarity of how the maximum level of council tax will be calculated without triggering a referendum. These are expected to happen over the coming weeks. As such, an increase in Council Tax of 3.5% would present a risk if the Government amended the level of council tax increase that triggered a referendum and/or for a technical reason the council miscalculated its council tax increase.

5.5.4 A 3.5% Council Tax rise would result in a Band D Council Tax bill of £123.65, an increase of just £4.18 for the year compared to 2011/12. It is estimated that this new level of Council Tax will raise a total of £3,796,100 from local tax payers.

6.0 Draft Capital Programme 2012/13 to 2020/21

6.1 The Capital Programme agreed by Council in February 2011, which was due to cost £16m over the next 10 years, is no longer affordable. As such there has been a major review of the Council's capital investment plans. The main aim of the Draft Capital Programme 2012-21 is to set out a programme which is affordable, ensures business continuity for the Council's services and enables investment in Council priorities. To achieve these, often competing, objectives, the Council's capital spending is divided into three areas:

- A draft capital programme which ensures business continuity and has a clear plan for how it will be financed.
- A series of capital investment schemes which were previously in the capital programme but are currently being reviewed before a decision is made on whether to include them in the capital programme.
- The scope for potential future capital investment to invest in community projects and economic growth.

6.2 <u>Draft Capital Programme 2012/13 - 2020/21</u>

6.2.1 The draft programme is focussed on maintaining business continuity, meeting statutory obligations and investing in assets to improve revenue income streams. The main schemes and how they are funded is shown in the table below:

	2012/13 £	2013/14 to 2021/22 £
Improving Services:		
• Investment in Pemberton Centre to improve leisure services and generate additional income sources	1,500,000	0
• Disabled Facilities Grants (statutory obligation)	400,000	3,600,000
Maintaining Business Continuity:		
• Business systems & technology	476,500	3,645,000
• Properties	30,000	225,000
Schemes subject to review:		
• Nene Centre Roof	1,100,000	0
• Investment in Nene Centre to improve leisure services and generate additional income	350,000	350,000
• Replacement of 'company cars'	121,140	336,420
Other schemes (incl. wheelie bin replacement)	16,600	163,000
Rescheduling of capital projects from 2011/12	167,690	0
Budget 2012/13 and future programme	**4,161,930**	**8,319,420**
Funded by:		
Capital Reserves	1,353,650	0
Proceeds from Sale of Assets	860,000	3,830,540
Government Grant (Disabled Facilities Grant)	170,000	1,530,000
External Contributions	1,100,000	0
Borrowing	678,280	2,958,880
Total Funding	**4,161,930**	**8,319,420**

The draft Capital programme is set out in Appendix D.

6.2.2 The draft Capital programme will be funded by the use of the remaining capital reserves in 2012/13, government grants and proceeds from the sale of council property & land assets. To manage the risk of timing difference between capital expenditure being incurred and receipts from assets sales being received the Council will use temporary borrowing to finance the programme during the next 5 years. Once receipts from assets have been realised their first use will be to repay existing borrowing rather than undertake further capital investment projects. For the period beyond 5 years there are insufficient capital receipts (based on existing surplus sites) to finance the capital programme, it is therefore assumed this will be funded from permanent borrowing until further asset sales can be identified.

6.3 Potential Capital Schemes Currently Under Review and Awaiting Further Decision

6.3.1 There are currently three capital investment schemes under review to ensure they meet the Council's objectives, and awaiting further decisions before they proceed. These schemes are:

- Nene Centre roof repairs
- Investment in Nene Centre to improve leisure services and generate additional income
- Purchase of 'company cars'

6.3.2 When the reviews of these schemes are complete, and a clear sustainable funding source is identified, these will be incorporated fully (rather than provisionally) into the capital programme.

6.4 Investment in Community Projects & Economic Growth

6.4.1 As noted in paragraph 4.8.3 of this report, an increasing proportion of the New Homes Bonus will be set aside to be re-invested back into the community and to promote further economic growth. Over the period of the MTFS over £2m will be available for such projects. Some of these projects will be capital in nature and will be added to the capital programme during the financial year through the existing decision-making framework.

6.4.2 In addition to the community project monies set aside the Council is actively seeking further external funding from Government, developers and other organisations to invest in economic growth in the District. To enable this to happen, members are encouraged to establish a prioritised list of schemes to support growth in the area.

7.0 Draft Annual Treasury Management Strategy 2012/13

7.1 The CIPFA Code of Practice on Treasury Management, adopted by the council in April 2002, requires the preparation of an annual Treasury Management Strategy Statement (TMSS). The 2003 Prudential Code for Capital Finance in Local Authorities introduced new requirements on how capital spending plans should be considered and approved and the development of an integrated treasury management strategy

7.2 The Prudential Code requires the Council to set a number of Prudential Indicators, which replace the borrowing/variable interest limits previously determined as part of the Strategy Statement and also extend the period covered from one to three years. The report incorporates the Indicators which should be considered when determining the council's Treasury Management Strategy for the next four financial years.

7.3 The Treasury Management Strategy from 2012/13 to 2015/16 needs to consider the following four matters:

- The institutions the council will invest money with
- The types of investment instruments that will be used
- The limits that are placed on either the institution or the instrument used
- The underlying economic environment that will affect the types of investment the council will use and the duration of these investments.

7.4 The format and content of the TMSS is determined by the CIPFA Code of Practice on Treasury Management.

7.5 The Council's Draft Treasury Management Strategy is set out in Appendix 4. The main changes to the Strategy include:

- A borrowing strategy to finance the capital programme.
- The recommendation of an Affordable Borrowing Limit, which the Council will need to approve in order to fund its capital investment programme.
- Strengthening of the investment strategy to reflect the macro economic risks facing the Council, including continuation of investments with UK banks if the country's sovereign rating reduces from its current AAA status.

8.0 Reserves and Balances Strategy

8.1 Historically the Council has used its reserves to fund the Council's capital and revenue spending. This is not sustainable on an ongoing basis, and the aim should be to achieve a balanced budget (i.e. no draw on reserves) over the period of the MTFS.

8.2 Minimum Level of Reserves

8.2.1 There is a regulatory requirement to set a minimum level of reserves. Members agreed in December 2009 to set this minimum as £1.7 million. It was also decided to limit the draw on all revenue reserves over a four year period to a maximum of £2 million.

8.2.2 Having considered the risks facing the Council in the short, medium and long term its is proposed to change the minimum level of reserves as follows:

- An underlying minimum level of £1m for the long term, and
- In the short to medium term to raise the minimum level to £2m to reflect the uncertainties current facing the Council. These uncertainties include Nene Centre Roof, the delivery of a cost reduction programme to ensure on-going revenue spending is sustainable, changes to Government policy which could significantly impact on the Council's funding position (e.g. re-localisation of business rates, localisation of council tax discounts, council tax benefits and universal credit)

8.3 The table below sets out the Council's forecast reserves position:

	Forecast position as at				
	31/3/2012 £000	**31/3/2013 £000**	**31/3/2014 £000**	**31/3/2015 £000**	**31/3/2016 £000**
Underlying minimum level of reserves	1,711	1,000	1,000	1,000	1,000
Enhanced minimum level of reserves	0	1,000	1,000	1,000	1,000
Total minimum level of reserves	**1,711**	**2,000**	**2,000**	**2,000**	**2,000**
Earmarked reserves	201	201	201	201	201
Revenue Reserves	3,060	2,226	1,882	1,763	1,768
Capital Reserves	1,354	0	0	0	640
Total Reserves	**6,326**	**4,427**	**4,083**	**3,964**	**4,609**

9.0 Equality and Diversity Implications

9.1 There are no equality and diversity implications arising from this report. Separate assessments will be produced as savings plans are developed over the period of the MTFS to deliver the savings yet to be identified.

10.0 Legal Implications

10.1 There are no legal implications arising from the report.

11.0 Risk Management

11.1 The risk register includes the corporate risk of “failure to develop and deliver sustainable budgets (Risk 257)”. The purpose of the MTFS is to ensure that this risk is anticipated and addressed.

11.2 The risks associated with the assumptions made in the MTFS are set out in section 4.

12.0 Financial Implications

12.1 The report is of a financial nature and the implications are set out within the report.

13.0 Corporate Outcomes

13.1 The Corporate Outcomes that the MTFS seeks to help deliver are:

- Good Quality of Life
- Good Value for Money
- Effective Management
- High Quality Service Delivery
- Strong Community Leadership

14.0 Recommendations

14.1 Policy and Resources Committee is recommended to propose the contents of this report to Council on 29th February 2012 as part of the budget setting process. Specifically the Working Party is recommended to propose to Council that the following be approved / agreed:

- Draft Medium Term Financial Plan
- Draft Revenue Budget 2012/13
- Council Tax increase for 2012/13 of 3.5% (subject to confirmation of the regulation for triggering a referendum by Government)
- Levels of reserves, including the minimum level of £2m
- Draft Capital Programme for 2012/13-2021/22 (subject to the ongoing reviews of certain schemes within that programme)
- The Treasury Management Strategy Statement (TMSS) and Investment Strategy from 2012/13 to 2015/16, and specifically that: -
    - the prudential Indicators in Appendix A of the TMSS be approved;
    - the council's MRP Strategy in section 5 of the TMSS be agreed;
    - the types of investment the council can use, as set out in Appendix C of the TMSS, be approved;
    - the criteria for assessing the suitability of investment counterparties in Appendix D of the TMSS be agreed; and
    - the affordable borrowing limit be agreed

(Reason:). To ensure the Council complies with its constitution in setting its Budget.

Person originating report: Glenn Hammons, Interim Chief Finance Officer

Date: 3 February 2012

MediumTerm Financial Strategy 2012/13 to 2015-16 **Appendix 1**

2011-12 Revised Budget £	2011-12 Forecast Outturn £		2012-13 Draft Budget £	2013-14 Indicative Budget £	2014-15 Indicative Budget £	2015-16 Indicative Budget £
543,240	415,945	Central Services to the Public	424,380	432,170	430,460	438,360
4,292,050	4,412,457	Cultural, Environmental and Planning Services	3,720,530	3,326,639	3,319,746	3,317,408
4,640,830	4,472,515	Departmental Central Support Services	4,540,440	4,629,880	4,721,105	4,814,155
195,990	156,059	Housing Services	183,770	205,740	228,140	250,980
61,440	54,559	Highways Roads & Transport Services	66,430	67,660	68,910	70,190
437,850	440,090	Corporate and Democratic Core	432,570	435,360	438,210	441,120
586,030	618,370	Non-Distributable Costs	606,020	760,620	651,430	662,450
10,757,430	**10,569,995**	**Total Service Expenditure**	**9,974,140**	**9,858,069**	**9,858,001**	**9,994,663**
		Other Expenditure/Adjustments				
(1,070,803)	(883,368)	Amount to be met from reserves	(545,399)	(343,441)	(119,493)	4,750
0	0	Community Projects (New Homes Bonus)	181,211	349,799	598,423	949,774
0	0	Savings options to be determined	0	(200,000)	(400,000)	(650,000)
(135,000)	(135,000)	Net Interest Received / Paid	23,160	161,999	162,719	74,323
(1,205,803)	**(1,018,368)**	**Total Other Adjustments**	**(341,028)**	**(31,642)**	**241,649**	**378,847**
9,551,627	**9,551,627**	**Total Budget Requirement**	**9,633,112**	**9,826,427**	**10,099,650**	**10,373,510**
		Sources of Funding				
(5,473,493)	(5,473,493)	Revenue Support Grant/NNDR	(4,831,611)	(4,590,030)	(4,360,529)	(4,142,502)
35,701	35,701	Transfer From Collection Fund	38,850	20,000	10,000	0
(355,008)	(355,008)	New Homes Bonus	(906,055)	(1,165,996)	(1,496,057)	(1,899,548)
		Council Tax Freeze Grant 2011/12	(91,096)	(91,096)	(91,096)	0
(114,992)	(114,992)	Other income grants	(47,100)	(44,745)	(42,508)	(40,382)
(5,907,792)	**(5,907,792)**	**Total Funding**	**(5,837,012)**	**(5,871,868)**	**(5,980,190)**	**(6,082,433)**
3,643,835	**3,643,835**	**Amount to be met from Council Tax**	**3,796,100**	**3,954,559**	**4,119,460**	**4,291,077**
30,500	**30,500**	**Council Tax Base**	**30,700**	**30,900**	**31,100**	**31,300**
119.47	**119.47**	**Equivalent Band D Tax**	**123.65**	**127.98**	**132.46**	**137.10**
		% change in Council Tax	**3.50%**	**3.50%**	**3.50%**	**3.50%**

Revenue Budget 2012-13 to 2015-16
List of Proposed Changes from Revised Revenue Budget 2011-12

Directorate	Description Summary of Proposal	Detailed Description of Proposal	2012-13 £
ALL	Pay & Inflation	Staffing increments as per contractual commitments.	57,030
HCS	Other Staffing Changes	Removal of Hben visiting policy and procedure and associated staffing costs.	-20,440
HCS	Community Planning ad hoc grants	Transfer from ABI budget (was £20k) as projects cease, to deliver new CD strategy and community plans. Strategy, but not budget, approved at Dec P&R. Members wanted to await the budget setting process.	15,000
HCS	Changes to housing benefits levels	These budgets are based on Est.for Hben for 12/13. This includes a reductions in Gov grant for HBEN by £25k, liklihood of increased claims and reduction in recovery of Hben overpayments. The £41,270 represents the difference between an original est. of £-466,040 to a revised est £-424,770.	41,270
HCS	Discretionary Business Rate Relief	Additional Discretionary Business Rate Relief.	10,100
HCS	Media and Comms decrease in contract payments	Reduction in customer surveys, focus groups and panel.	-10,000
HCS	Area based initiatives increase in grant	Removal as project finishes but plan to transfer £15k to Community plans as per CD strategy (see Community Planning above).	-20,000
HCS	Crime and disorder decrease in contract payments	Reduction in % of contingency budget for repairs and renewals for CCTV as budget consistently underspends.	-17,000
HCS	Pemberton Centre - additional income	Additional income arising from investment in improved leisure facilities at Pemberton Centre in line with business case approved by P&R Committee on 29 September 2011.	0
HCS	Other budget variances less than £10k each	Decrease in various small budgets for stationary, subscriptions, equipment etc.	-26,840
HEH	Other Staffing Changes	£38k+ transitional salary savings during the year. Includes Safety Officer Post (in year vacancy saving £27k) and change to standby payments a s a result of policy change (£14k).	12,925
HEH	Refuse collection decrease in waste contract mobilisation	Budget created in 11/12 utilising various operational efficiency savings across ES and was used to pay for the implementation costs associated with the new waste contract. With a succesful roll out this budget is no longer required.	-27,000
HEH	Recycling increase in waste management charge	Index linked increases to waste contract costs.	29,000
HEH	Increase in recycling contributions	Improved performance and diversion of waste from landfill will result in the increase of recycling credits received from NCC.	-179,000
HEH	Street cleaning in waste management charges	Index linked increases to waste contract costs.	34,000
HEH	Central Admin Unit decrease in income	Contractual requirements to recover costs only. Reduction in support service charges to the CAU resulting from support services savings passed on to partners by way of reduced charges.	18,000
HEH	Other budget variances less than £10k each	Includes reduction to training budget (£2k) and reduction of contribution to NWP (£5k).	-99,130
HIT	Other Staffing Changes	Significant savings from the removal of a post, maternity leave and the reduction in grades of another post taken mid year - increase shown is due to figure being based on current budget against next year's which includes the return of the person on materity.	6,985
HIT	IT support (ENC only) decrease licences etc	Reduction in number of licenses for some systems due to reduction in staff. Changes to MSA (12.5K), removal of Portal. Includes aditional license costs for 4Risk as budget not transferred from Finance Manager.	-73,000
HIT	Other budget variances less than £10k each	Changed Internet suppliers that are shared with CBC and BCW. Reduction in staff training. Reduction in printer consumables.	-18,450
HOR	Other Staffing Changes	HR Admin Officer - redundancy of this post. Payroll Officer introduction of shared service. HR Adviser regraded to Grade 6 (previously Grade 7). Policy and Performance Manager reduced hours (from 37 to 30).	-51,978
HOR	Decrease in income Rushden Centre	Withdrawal of tennants and therefore loss of income. Change of provider of housing services (Spire Homes) - new provider did not require accommodation. Also withdrawal of Contactlaw who moved to alternative premises. Difficult location to re-let.	45,500
HOR	Decrease in Short Courses/advertising	Alternative training methods have been utilised, all non-qualification training budgets are centralised with approval process in place with increased monitoring by HR. Also, the Council now employs fewer staff.	-21,000
HOR	Decrease in Encor shared services	Post has been held vacant and review has been undertaken which will realise savings.	-46,000
HOR	Public conveniences decrease waste manage charges/utilities	Transfer of all public conveniences to Town Council's with effect from 1 January 2012.	-105,600
HOR	Decrease in rental income Rushden Depot	Change of waste provider who did not require the accommodation.	35,500
HOR	Elections supplies and services decreased	Election budget reduced as no local elections in 2012/13. £20,000 budget retained per annum to build up a reserve to contribute towards costs of next local elections in 2015.	-120,000
HOR	Electoral registration	Cost of postal vote refresh (a new annual process) was not taken into account in the budget set.	2,590
HOR	Electiricity/Water and Gas supply to Rushden Depot and Recycling Centre and Oundle Recycling Centre	Connection charges for water, electricity and gas - no useage. Assumes no sale before 2015.	810
HOR	Non distributed costs retirements increase	Strain on the pension fund - employer contributions levels set by NCC.	20,000
HOR	Other budget variances less than £10k each	Reduction in staff advertising, medical fees , subscriptions, electricity, stationary, printoroom supplies, travel expenses.	15,430
HPS	Other Staffing Changes	Staffing Changes as a result of the restructure of Economic Development.	-27,912
HPS	Homelessness Admin decrease for one off contract work	One off Solicitors costs savings of £20k (only required in 11/12) On going revenue savings of £17,500 due to reduction in cost of new Housing Contract.	-38,000
HPS	Planning increase in planning fees	Anticipated increase in fee income on the basis of levels of activity and anticipated out turn for 11/12.	-25,000
HPS	Planning increase pre app fees	Fee charging regime introduced from October 11. Additional income anticipated in future years on basis of intial income levels so far in 11/12.	-15,000
HPS	JPU Fees / Cessation of Future NNDC funding	Continuation of payment for work of the JPU:- base budget lower than required for 11/12 by £25k which was funded by under spend on NNDC. £50k was in the budget for NNDC for both 11/12 and 12/13 -only £27k was required. As NNDC will not be funded next year this results in an overall saving of £25k.	-25,000
HPS	LDF decrease in consultancy budget for 12/13	One off consultancy budget for 11/12 agreed to be spread over 2 years to support costs of temporary senior and planning policy officer posts. Additional budget will be required in 13/14 for the Four Towns Plan examination costs.	-76,000
HPS	Building Control Decrease in fee income	Reduction in fee income anticipated based upon current levels of activity and likely 11/12 out turn.	14,000
HPS	Economic development decrease in grants	Cessation of Grants to NEL, Welland and for Business Support activities following restructure of Economic Development.	-19,000
HPS	Master plans decrease for on off projects	One off contributions in 11/12 of £50k for the Irthlingborough Master plan and £20k for the Oundle 2020 visioning work no longer required in future years. However budget for HF and Thrapston will be required 2012/13 - of up to £100k which reduces saving in that year and possibly part of 2013/14.	-70,000
HPS	Other budget variances less than £10k each	Reductions in budgets for books and publications, hospitality, advertising and subscriptions.	-9,250
ED2	Pay & Inflation	Staffing increments as per contractual commitments. Maybe requirement for review in 2013/14	0
ED2	Other budget variances less than £10k each	Reduction in budgets for conferences (following demise of Standards for England), books and hospitality.	-830
			-783,290

Capital Programme 2012/13 - 2021/22

Appendix 3

EXPENDITURE SUMMARY	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Housing Projects	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Leisure and Tourism Projects	3,034,000	350,000	-	-	-	-	-	-	-	-
Environment Projects	34,350	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Central Services Projects	1,840	-	-	-	-	-	-	-	-	-
Vehicle Replacement	137,740	115,340	81,080	70,160	103,040	-	16,600	16,600	16,600	-
Essential Property Maintenance	30,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Corporate Systems	524,000	380,000	370,000	460,000	470,000	520,000	260,000	235,000	500,000	450,000
Total	4,161,930	1,270,340	886,080	965,160	1,008,040	955,000	711,600	686,600	951,600	885,000
Less: Schemes subject to review	(1,801,140)	(678,740)	(294,480)	(300,160)	(333,040)	(230,000)	(230,000)	(230,000)	(230,000)	(230,000)
Total	**2,360,790**	**591,600**	**591,600**	**665,000**	**675,000**	**725,000**	**481,600**	**456,600**	**721,600**	**655,000**

Housing Projects	Responsible Officer	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Disabled Facilities Grants (subject to review)	Mike Deacon	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Total		**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**

Leisure and Tourism Projects	Responsible Officer	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
The Pemberton Centre Rushden	Katy Everitt	6,000									
Improvements to Pemberton Centre	Lisa Hyde	1,500,000									
Nene Community Centre - Roof (subject to review)	Katy Everitt	1,100,000									
Improvements to Nene Centre (subject to review)	Lisa Hyde	350,000	350,000								
Splash Pool	Katy Everitt	46,500									
Stanwick Lakes - Infrastructure	Lisa Hyde	31,500									
Total		**3,034,000**	**350,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Environment Projects	Responsible Officer	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Environmental Improvements	Lisa Hyde	20,000									
District Car Parks	Katy Everitt	11,950									
Replacement of Wheelie Bins	Mike Deacon			10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Road Adoption Kingsmead Kings Cliffe	Katy Everitt	2,400									
Total		**34,350**	**-**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**

Central Services Projects	Responsible Officer	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Colour Printer	Katy Everitt	1,840									
Total		**1,840**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Vehicle Replacement	Responsible Officer	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Replacement Dog Warden Vans	Mike Deacon	16,600	16,600	16,600				16,600	16,600	16,600	
Purchase of Company Cars (subject to review)	Katy Everitt	121,140	98,740	64,480	70,160	103,040	-	-	-	-	-
Total		**137,740**	**115,340**	**81,080**	**70,160**	**103,040**	**-**	**16,600**	**16,600**	**16,600**	**-**

Essential Property Maintenance	Responsible Officer	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Harringworth village drain	Katy Everitt	10,000									
Essential Propperty Maintenance			25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Industrial Units	Katy Everitt	20,000									
Total		**30,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**

Corporate Systems	Responsible Officer	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Service Transformation Programme	Gareth Jones			60,000						60,000	
Replacement PC`S, Monitors & Laptops	Gareth Jones	39,000	25,000	35,000	35,000	15,000	15,000	35,000	35,000	15,000	15,000
Replacement Printers & Scanners	Gareth Jones	25,000	15,000	15,000	5,000	5,000	15,000	5,000	5,000	5,000	10,000
Replacement Servers	Gareth Jones	45,000	20,000	10,000	30,000	15,000	20,000	30,000	10,000	10,000	25,000
Replacement Sun Server	Gareth Jones	-	-	-	-	30,000	-	-	-	-	30,000
UPS Equipment	Gareth Jones	20,000	-	-	-	20,000	-	-	-	20,000	-
Data Infrastructure Equipment	Gareth Jones	20,000	15,000	15,000	100,000	5,000	10,000	5,000	5,000	20,000	15,000
Licences	Gareth Jones	105,000	115,000	125,000	120,000	155,000	110,000	135,000	120,000	115,000	150,000
Storage/Replacement SAN	Gareth Jones	10,000	10,000	10,000	10,000	50,000	5,000	10,000	10,000	10,000	60,000
Council Chamber Project Screen	Gareth Jones		25,000			5,000				25,000	
Security Systems/GovConnect	Gareth Jones	10,000	10,000	10,000	10,000	30,000	10,000	10,000	10,000	10,000	10,000
ESRI - GIS Upgrade	Gareth Jones		70,000			10,000			10,000		70,000
CAPS Solutions/ERMS	Gareth Jones	200,000	20,000	10,000	40,000	10,000	10,000	20,000	10,000	200,000	10,000
Revenues and Benefits Upgrade	Gareth Jones	10,000	40,000	10,000	10,000	15,000	15,000	10,000	10,000	10,000	15,000
CRM Upgrades	Gareth Jones			70,000			300,000				
Telephone System	Gareth Jones		15,000		100,000		10,000		10,000		-
Review of Licensing Unit's System	Gareth Jones										
Rushden Centre BC/DR	Gareth Jones	40,000				25,000					40,000
Replacement Finance System						80,000					
Total		**524,000**	**380,000**	**370,000**	**460,000**	**470,000**	**520,000**	**260,000**	**235,000**	**500,000**	**450,000**

Appendix 4

East Northamptonshire Council
Treasury Management Strategy Statement
and Investment Strategy 2012/13

<u>**Contents**</u>

<u>**Appendices**</u>

1. Background

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

1.2 CIPFA has defined Treasury Management as:

"the management of the organisation's 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 This strategy takes into account the impact of the Council's Revenue Budget and Capital Programme and the Balance Sheet position. The Prudential Indicators and the outlook for interest rates are also considered within the strategy.

1.4. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices; the main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

1.4 The purpose of this Treasury Management Strategy Statement is to approve:

- Treasury Management Strategy for 2012-13
- Prudential Indicators – Appendix A
- MRP Strategy – Section 5
- Use of Specified and Non-Specified Investments – Appendix C
- Criteria for accepting counterparties on to the Council's approved lending list – Appendix D

2. The Treasury Position

2.1 The Council's estimated treasury position for 31/3/2012 and for the following financial years is:

	31/3/2012 Estimate £m	% Return	31/3/2013 Estimate £m	31/3/2014 Estimate £m	31/3/2015 Estimate £m	31/3/2016 Estimate £m
Investments:						
Short-term deposits	10.0	1.00	9.0	8.0	7.0	7.0
Long-term deposits						
Total Investments	10.0	1.00	9.0	8.0	7.0	7.0

2.2 The estimate for interest receipts in 2011/12 is £0.120m. The estimates for 2012/13 and subsequent years take into consideration the current portfolio and the outlook for interest rates. It should be noted that the long term deposits that bolster our investment return will mature during 2011/12 and are likely to be invested at a much lower rate. The impact on interest earned has though been reflected in our financial plans.

3. Outlook for the Economy and Interest Rates

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

3.2. **Background** – the last financial year has seen little of the expected economic growth. This has lead to the conventional monetary policy becoming largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates are likely to be on hold through to the end of 2012.

3.3. As the prospect for economic growth is scarce the Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing.

3.4. **Outlook –** The turmoil within the Eurozone and the unwillingness of its politicians to implement a credible plan to resolve it, has resulted in the fluctuation of the market confidence within the financial markets.

3.5. CPI Inflation is currently 4.2%. The Bank's Inflation Forecasts still point to a sharp downturn in CPI in 2012 as the index effects of VAT and earlier energy price shocks subside.

3.6. Business confidence has yet to recover sufficient for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high.

3.7. With the fluctuation within the Financial Markets the investment rates that are available will remain static and the duration as to which a deposit is recommended to be fixed will remain short. As such, the expected level the Council can invest money at is expected to remain low.

3.8. Based on the above outlook for interest rates, and after taking into consideration the existing position of our portfolio, it is anticipated that the average return on the Council's funds for the next four years will be;

Year	Average Return
2011/12	1.16
2012/13	1.00
2013/14	1.50
2014/15	2.00
2015/16	3.00

4. Borrowing Requirement and Strategy

4.1 The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Appendix A, section 4. The CFR represents the cumulative capital expenditure of the local authority that has not been financed (the underlying need to borrow). To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year.

4.2 Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR and subject to the nature of the borrowing, will in turn produce an increased requirement to charge MRP in the Revenue Account.

4.3 Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

4.4 To fund its capital investment program the Council intends to use short term temporary borrowing to bridge the timing of costs being incurred and capital receipts being realised. The Council's strategy is to maintain maximum control over its borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

4.5 As indicated in Appendix A, Section 3 the Authority has a gross borrowing requirement of £1.97m in 2012/13. However, the Authority will adopt a flexible approach to 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 debt;
- Interest rate and refinancing risk;
- Borrowing source

4.6 Sources of Borrowing and Portfolio Implications

In conjunction with advice from its treasury advisor, Arlingclose, the Council will keep under review the following borrowing options:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from money markets
- Local authority stock issues
- Local authority bills
- Structured finance

The cost of carry (which is the financial cost of borrowing, including interest costs, brokers fees and marginal revenue provision) has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns.

The Authority's exposure to shorter dated borrowing is kept under regular review by reference to the difference between variable rate and longer term borrowing costs. A narrowing of 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.

4.7 Debt Rescheduling

A 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 undertaken meaningful debt restructuring although occasional opportunities arise. The rational for undertaking any debt rescheduling would be on 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

5. Annual MRP Statement

5.1 East Northamptonshire Council will in accordance with the main recommendations contained within the guidance issued by the Secretary of State, under section 21(1A) of the Local Government Act 2003, assess their MRP for 2012/13.

5.2 Expenditure reflected within the debt liability at 31 March 2013 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of the expenditure, using the equal annual instalment method. For example, capital expenditure on a new building or on the refurbishment or enhancement of a building will be related to the estimated life of that building. Under this option no MRP charge is required until the financial year after that in which an item of capital expenditure is fully incurred or in case of a new asset comes into service.

5.3. The Council has decided that it would be prudent not to charge MRP in relation to the Nene Centre Roof, for which short-term borrowing is likely to be paid for by monies arising from legal action. This will be reviewed on an annual basis.

5.4 The Council has decided that it would be prudent not to charge MRP in relation to capital expenditure, for which short-term borrowing will be funded from the sale of land and properties in the next 2-3 years. This will be reviewed on an annual basis.

5.4. Estimated life periods will be determined under delegate powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these period will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

5.5 The Council's CFR at 31 March 2013 is estimated to be £nil and therefore is no requirement to charge MRP in 2012/13.

6. Investment Policy and Strategy

6.1. Background

6.1.1. Guidance from the then CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the Treasury Management Strategy Statement (TMSS) and the AIS to be combined into one document.

6.2. Investment Policy

6.2.1. The Council's general policy objective is to invest its surplus funds prudently. Due to the ongoing uncertainty in the banking sector which has seen institutions fold, it is now felt more appropriate to focus on the safe return of the sum invested. As such the Council's investment priorities in priority order are:

- security of the invested capital;
- liquidity of the invested capital;
- the return received from the investment.

The speculative procedure of borrowing purely in order to invest is unlawful and will not be used.

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

6.2.3. The Council will maintain a counterparty list based on its criteria and monitor and update the credit standing of the institutions on a regular basis. Appendix D sets out the Council's policy for determining which counter parties to invest with and this list will be restricted by any advice given from the Council's Treasury Advisors or gained from any other source.

6.3. Investment Strategy

6.3.1. The Council's investment strategy for 2012/13 will be based solely on the priorities listed in 6.2.1 above.

6.3.2. The return on the Council's investment will be a tertiary consideration after preservation of capital and the liquidity of our monies. The Council will endeavour to seek the best possible returns through the pro-active management of its cash balances, however, it is anticipated that the opportunities in the current environment will be limited.

6.3.3. The Chief Finance Officer 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.

6.4 **Investments managed in-house**

6.4.1 The Council's existing investments are a combination of short-term investments (i.e. with maturities of three months or less), money market funds and call accounts, and reflect previous treasury management strategies and decisions. The mix of investments enables the Council to maintain an appropriate level of liquidity and enables it to mitigate re-investment risk (the risk that a large proportion of maturing investments are reinvested when interest rates are at a cyclical low).

6.4.2. The Council's shorter term cashflow investments are made with reference to the outlook for the UK Bank Rate and money market rates. For these monies, the Council will mainly utilise Money Market Funds, Call Accounts and term deposits.

6.4.3. As and when appropriate a proportion of the Council's in-house core balances can be invested with a longer-term strategic focus, within the limits the Council has set for Non-Specified Investments:

- Investments in longer-term deposits and in bonds to provide certainty of investment income over the life of the instrument.
- Callable deposits where a higher return is intended to compensate for the uncertainty of the deposit running to maturity.
- The associated increase in credit risk from a longer-term investment is managed by using counterparties meeting the Council's longer-term credit criteria.

6.4.4. The Council's existing fixed-term investments are :

- £3m Lancashire County Council – fixed to 14th June 2012 at 0.40%
- £2m Salford Council – fixed to 16th March 2012 at 0.30%

6.5 Investments managed externally

6.5.1. The Council currently does not use any external fund managers. Any decision to do so would be subject to review by the Finance Working Party and approval by Policy & Resources Committee.

6.6 Collective Investment Schemes (Pooled Funds):

6.6.1. The Council has evaluated the use of Pooled Funds and determined the suitability of their use within the investment portfolio. The reasons for doing so are the continuing importance of investment returns in the Council's overall finances as well as a recognition that investment returns from cash or near cash instruments will be lower in the future.

6.6.2. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. It enables the Council to establish relatively small exposures (£1m - £2m upwards) in appropriate asset classes including those which, if used within segregated funds management mandates, would constitute capital expenditure.

6.6.3. The Council does not currently use this type of investment and any decision to do so in the future will only be undertaken following advice from Arlingclose.

6.7. **The Use of Financial Instruments for the Management of Risks**

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 authority does not intend to use derivatives.

6.7.1 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

6.8. Investments which constitute capital expenditure

6.8.1. Investments meeting the definition of capital expenditure will only be used by this Council following consideration and approval by the Finance Working Party and Policy & Resources Committee.

7. Balanced Budget Requirement

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

8 Reporting on the Treasury Outturn

8.1 The Chief Finance Officer will report to the Finance Working Party, Policy & Resources Committee and Council an outturn report on treasury activity no later than 30 June after the financial year end. A mid year report setting out treasury activity so far that year will be submitted to these committees at the first available meeting after the 30 September. Quarterly budget monitoring reports will reflect the anticipated return for the year from investments.

APPENDIX A

PRUDENTIAL INDICATORS

1. Background:

1.1. There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008 with a fully revised version being published in 2009 to incorporate changes towards implementing IFRS.

2. Net Borrowing and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for capital purposes, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
General Fund	3.059	2.704	4.162	1.270	0.886	0.955
Total	**3.059**	**2.704**	**4.162**	**1.270**	**0.886**	**0.955**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing

	2011/12 Estimate £000	**2012/13 Estimate £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**
Capital Receipts	30		860	886	955
Government Grants/Contributions	167	1,270	170		
Capital Receipts Reserve	2,507	923			
Total Financing	**2,704**	**2,193**	**1,030**	**886**	**955**
Borrowing		1,969	240		
Total Funding	**0**	**1,969**	**240**	**0**	**0**
Total Financing and Funding	**2,704**	**4,162**	**1,270**	**886**	**955**

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This 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 definition of financing costs is set in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Approved %	Revised %	Estimate %	Estimate %	Estimate %	Estimate %
General Fund	0.00	0.00	0.53	1.72	1.57	0.00
Total	**0.00**	**0.00**	**0.53**	**1.72**	**1.57**	**0.00**

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure**.

Capital Financing Requirement	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Approved	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
General Fund	-2.401	-2.401	-0.432	-0.191	-0.405	-2.401
Total CFR	**-2.401**	**-2.401**	**-0.432**	**-0.191**	**-0.405**	**-2.401**

in line with CIPFA's guidance, any investments or other items not falling within the classification of fixed or intangible assets, but financed from capital resources must be included within the CFR for the purposes of this calculation.

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

5.3. The Council's Chief Finance Officer confirms that this Council had no difficulty meeting this requirement in 2010-11 nor are difficulties envisaged for the current or future financial years.

6 Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/3/2012	£m
Borrowing	0.000
Other Long-term Liabilities	0.000
Total	**0.000**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. 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.

Incremental Impact of Capital Investment Decisions	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Approved £	Revised £	Estimate £	Estimate £	Estimate £	Estimate £
Increase in Band D Council Tax	3.01	1.49	1.36	0.62	0.57	0.92

8 Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Borrowing	4.800	4.000	4.000	4.000	4.000	4.000
Other Long-term Liabilities	0.200	0.200	0.200	0.200	0.200	0.200
Total	**5.000**	**4.200**	**4.200**	**4.200**	**4.200**	**4.200**

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario.

Operational Boundary for External Debt	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Borrowing	4.800	2.000	2.250	2.250	2.250	2.250
Other Long-term Liabilities	0.200	0.200	0.200	0.200	0.200	0.200
Total	**5.000**	**2.200**	**2.450**	**2.450**	**2.450**	**2.450**

9. Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 29 April 2002. The Council has incorporated the changes to the revised CIPFA Code of practice into it's treasury policies, procedures and practices.

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

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums.

	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Approve %	Revised %	Estimate %	Estimate %	Estimate %	Estimate %
Upper Limit for Fixed Interest Rate Exposure	100.00	100.00	100.00	100.00	100.00	100.00
Upper Limit for Variable Rate Exposure	100.00	100.00	100.00	100.00	100.00	100.00

10.2 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

11 Maturity Structure of Fixed Rate borrowing:

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

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

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

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. The revised limits for 2012/13 onwards also reflect the overall lower level of investments held by the Council and the need to maintain a sufficient balance for cashflow purposes.

Upper Limit for total principal sums invested over 364 days	2011-12	2011-12	2012-13	2013-14	2014-15	2014-15
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
	6.000	**3.000**	**3.000**	**3.000**	**3.000**	**3.000**

APPENDIX B

Arlingclose's Economic & Interest Rate Forecast

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk													
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.80**	**1.85**	**1.95**	**2.00**	**2.10**	**2.20**	**2.30**	**2.40**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.25**	**1.30**	**1.35**	**1.40**	**1.50**	**1.60**	**1.70**	**1.80**	**2.00**	**2.10**	**2.30**	**2.40**	**2.50**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**2.20**	**2.30**	**2.40**	**2.45**	**2.50**	**2.55**	**2.60**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**3.00**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.00**	**3.05**	**3.05**	**3.10**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.60**	**3.75**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.25**	**3.40**	**3.50**	**3.60**	**3.70**	**3.80**	**3.90**	**4.00**	**4.00**	**4.00**	**4.10**	**4.20**	**4.25**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

APPENDIX C

Specified and Non Specified Investments

Specified Investments identified for use by the Council**:**

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

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

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

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Money Market Funds, i.e. ‘AAA’ liquidity funds with a 60-day Weighted Average Maturity (WAM)
- * Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. ** Investments in these instruments will be on advice from the Council’s treasury advisor.*

For credit rated counterparties, the minimum criteria will be the short-term ratings assigned by one or more of the following agencies (Moody’s Investors Services, Standard & Poor’s, Fitch)
Short-term : P-1 (Moody’s) or A-1 (S&P) or F1 (Fitch)

Non-Specified Investments determined for use by the Council:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-House use	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	✓	*5 yrs*	*50%* in aggregate	No
Gilts and bonds ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments	Only after specific report to Finance Working Party and agreement by P&R committee	*10 years*	*50%* in aggregate	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573) but which are not credit rated	Only after specific report to Finance Working Party and agreement by P&R committee	These funds do not have a defined maturity date	*50%*	No
Bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	No	*10 years*	*£4m*	**Yes**
Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	Only after specific report to Finance Working Party and agreement by P&R committee	These funds do not have a defined maturity date	*£4m*	**Yes**

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

Appendix D

CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS

1. The Chief Financial Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
2. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.
3. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with and will take advice as appropriate from the Council's external Treasury Advisors.
4. Credit ratings will be used as supplied from one or more of the following credit rating agencies: -

   Fitch

   Standard & Poor's

   Moody's Investors Services

5. Selection criteria for approved investment counterparties.

   - Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA- or equivalent for non-UK sovereigns).
   - Credit Default Swaps
   - Economic fundamentals (Net Debt as a percentage of GDP)
   - Share Prices
   - Corporate Developments, news, market sentiment and momentum
   - Sovereign Rating

   <u>Authority's Banker</u>

   The Authority banks with Barclays Bank. If their credit rating does not meet the minimum credit criteria specified in this Investment Strategy, Barclays Bank will continue to be used for the short term liquidity requirements (overnight and weekend investments) only to ensure business continuity arrangements are maintained.

6. Investment limits for each tier of counterparty

Instrument	Country/ Domicile	Counterparty	Long Term Rating	Short Term Rating	Maximum Counterparty Limit £m	Maximum Group Limit (if applicable) /£m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	A+/A1/AA-	F1/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	A/A1/A	F1/P-1/A-1	£2.0m	£3.0m
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	A/A1/A	F1/P-1/A-1	£2.0m	£3.0m
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	A/Aa3/A+	F1/P-1/A-1	£3.0m	
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	AA/AA2/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	A+/A2/A+	F1/P-1/A-1	£3.0m	
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	A/A2/A	F1/P-1/A-1	£2.0m	£3.0m
Term Deposits / CDs / Call	UK	Royal Bank of Scotland (RBS Group)	A/A2/A	F1/P-1/A-1	£2.0m	£3.0m

Accounts						
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	AA-/A1/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	AA-/Aa2/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	AA/Aa2/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	AA/Aa2/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	AA/Aa2/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	AA-/Aa2/A+	F1+/P-1/A-1	£3.0m	
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	AA-/Aa1/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	AA-/Aa2/A+	F1+/P-1/A-1	£3.0m	
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	AA/Aa1/AA-	F1+/P-1/A-1+	£3.0m	
Term Deposits / CDs / Call	Canada	Toronto-Dominion Bank	AA-/Aaa/AA-	F1+/P-1/A-1+	£3.0m	

Accounts						
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	France	BNP Paribas	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	France	Société Générale	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	Temporarily Suspended For New Investments			
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	Temporarily Suspended For New Investments			

Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	Temporarily Suspended For New Investments
Term Deposits / CDs / Call Accounts	US	JP Morgan	Temporarily Suspended For New Investments

7. The maximum period for investments will be 1 year.
8. The maximum value for any one investment transaction will be as shown in the table above.
9. The maximum level of investment with any one group of counterparties will be 20% of the total portfolio.
10. Sterling denominated only.
11. Banks who originate from AAA sovereign rate country. The only exception to this is the UK sovereign rating is reduced below AAA. If this was the case the Council would continue to invest in UK financial institutions.