East Northamptonshire Council

Policy and Resource Committee – 11 February 2013

Medium Term Financial Strategy and Budget 2013/14

Purpose of report
The purpose of this report is to set out the Council's Medium Term Financial Strategy (MTFS) 2013/14 to 2016/17, outline the Revenue Budget 2013/14 Capital Programme 2013/14 to 2022/23 and Treasury Management Strategy 2013/14.

Attachment(s)
Appendix 1 - MTFS 2013/14 – 2016/17
Appendix 2 - Revenue Budget Changes 2013/14
Appendix 3 - Capital programme 2013/14 – 2022/23
Appendix 4 - Treasury Management Strategy 2013/14
Appendix 5 - Fees and Charges

1.0 Context

1.1 This report refreshes the Medium Term Financial Strategy 2012/13 to 2015/16 that was approved by Council in February 2012 and updated for Finance Sub Committee in November 2012.

1.2 The MTFS 2012/13 to 2015/16 was formulated during a difficult financial settlement, which was designed to address the challenging national financial position.

1.3 Quarter one 2012 saw the UK economy enter a double-dip recession, posting three consecutive quarters of negative growth. This reduced confidence in the stability of the UK finances and increased the pressure on Government to stimulate growth.

1.4 During the first half of 2012, inflationary pressures receded slightly, business confidence began to increase and in quarter three the UK economy emerged from recession. However, there still remain fundamental weaknesses in the economy, and the Bank of England has recently reduced UK growth forecasts for 2013 and said that recovery will be "slow and protracted".

1.5 It is now anticipated that the economy will not get back to pre-crisis levels until at least 2015, two years later than previously predicted. This backdrop provides an extremely uncertain outlook for the UK and will continue to put pressure on Local Government finances over the medium term. The Autumn Statement announced in December 2012 by the Chancellor expects the pressure on public finances to continue until at least 2018.

1.6 In October 2010 the Government announced its 2010 Spending Review (SR10) which set budgets for Government departments up to 2014/15. The next Spending Review is expected during autumn 2013.

1.7 The spending review set out the agenda for public service reform, shifting power away from Central Government to the local level.
The public service reform sets out the agenda for "increasing freedom, sharing responsibility and getting better value for money from public services". This is to be achieved by:

- Localising power and funding
- Cutting regulatory burdens

- Improving transparency, efficiency and accountability

1.8 Localising power and funding involved a review of local government. During 2011 the terms of reference for the Local Government Resources Review (LGRR) were announced. This review was to consider:
   - changes to the way councils are funded
   - look at ways to incentivise growth through retention of business rates
   - increase autonomy and reduce dependency on central funding
   - review how funding is raised locally

1.9 Following the review, Central Government set out proposals for a Business Rate Retention Scheme and intentions for localisation of council tax support.

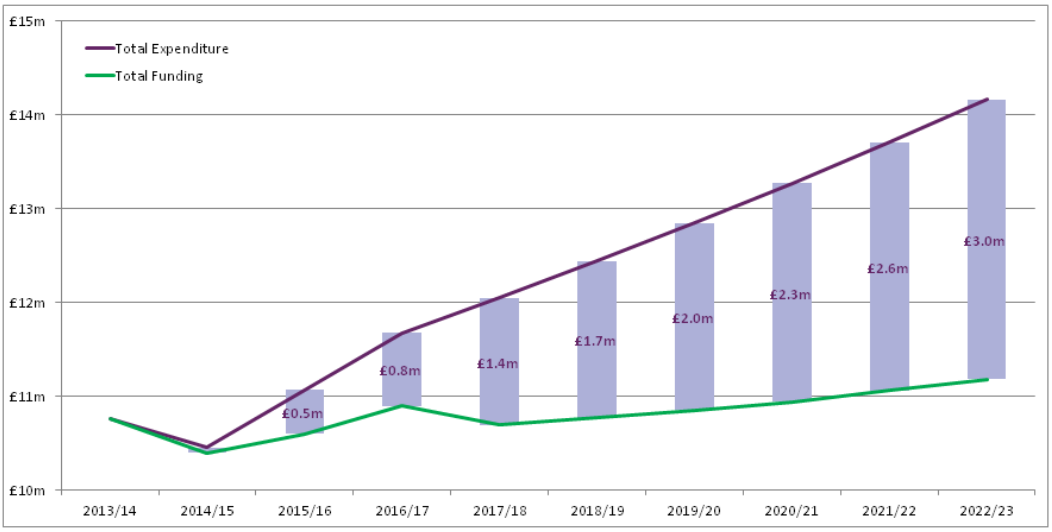
2.0 Long Term Financial Position

2.1 There remains some short term uncertainty, but the biggest risks facing the Council are in assessing the financial implications of the council providing its services at the current levels and the proposed changes to Local Government funding over the longer term. The local impact of the proposals is being modelled and a range of scenarios are being assessed.

2.2 It has been identified that over the medium term there is likely to be a funding gap between what the Council expects to spend, assuming it continues with current levels of service provision, compared to funding that is anticipated to be received.

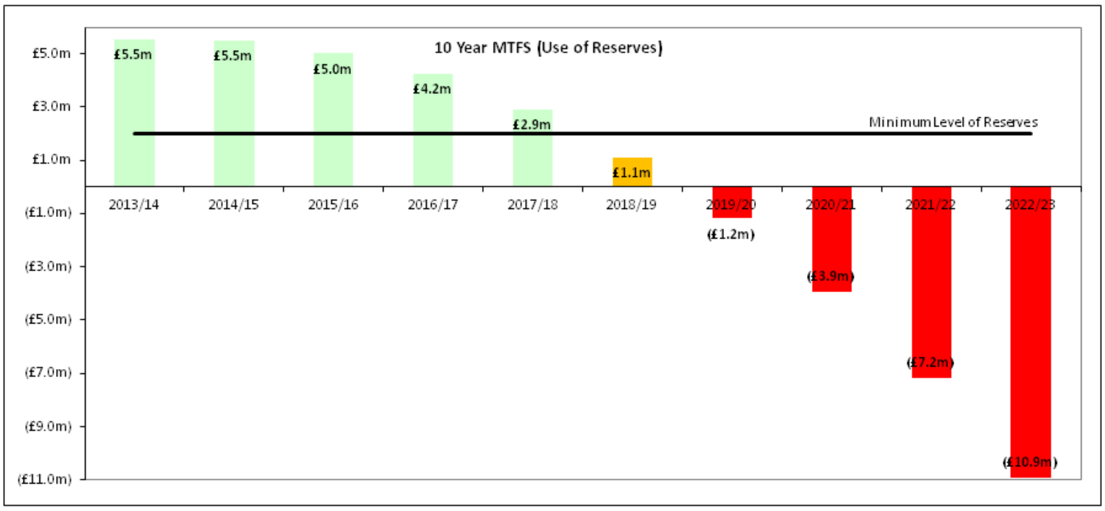
2.3 The Graph below demonstrates the potential impact of this funding scenario.

2.4 The major uncertainties and changes affecting Local Government are going to principally impact upon levels of funding. There is a large amount of uncertainty about the amount of funding that will be received over the long term. The situation will be closely monitored and any risks and assumptions reviewed as necessary.



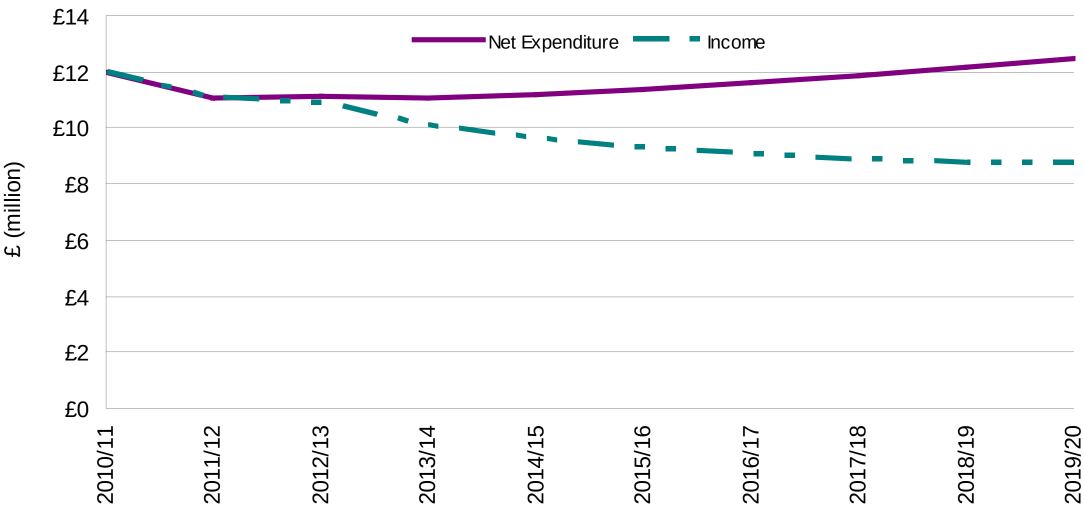
2.5 To meet historical funding deficits the Council has used revenue reserves to support the revenue budget. The MTFS 2012/13 to 2015/16 set out plans to reduce the amount of reserves that are used to support the budget and identify ways to reduce the gap between spending and funding by looking at other options.

2.6 Using reserves to support revenue expenditure is not a sustainable source of funding. The Graph below demonstrates the position the Council would be facing if it were to use reserves to bridge the gap based on the most pessimistic outlook for funding.



2.7 During summer 2012 the Local Government Association (LGA) undertook some financial modelling. They were able to use data published by the Department for Communities & Local Government (DCLG) from local authority data returns as well as future Government expenditure forecasts from the Office of Budget Responsibility (OBR).

2.8 The outcome of this analysis is similar to the analysis undertaken by the finance team and demonstrates the funding gap in future years.



[1]

2.9 The analysis provided by the LGA supports our view and reflects the uncertainty and enormous financial challenge that the Council faces.

2.10 All Councils are facing similar risks; they are also putting strategies in place to reduce the amount of uncertainty surrounding future funding.

2.11 Whilst it must be recognised that there is a lot of uncertainty, the preparation and setting of a MTFS and budget must still take place.

[1] Source: LGA Funding Model 2012

3.0 Government Funding & Policy Changes

3.1 The landscape of local government finance has seen significant change over the past few years and this is expected to continue over the MTFS period.

3.2 The austerity measures being put in place by Government are having a direct impact on the way the Council is funded. SR10 announced two years of significant funding reductions for local government, which have resulted in changes to the way local government delivers its services. The third year has now introduced further funding reductions and policy changes, which are fundamentally changing the way funding is distributed across the public sector. The LGRR has identified the areas for significant change.

3.3 ***Business Rates Retention Scheme***

The existing Formula Grant regime is being replaced with a Business Rate Retention Scheme with effect from 1st April 2013. The key aim of this is to incentivise local business growth through the retention of Business Rates. It should be noted that councils will only get to retain a proportion of any growth in business rates. Following extensive lobbying from local government recent announcements from Government indicate that at least 25% of business rates growth will be retained locally. The Council is working with all other councils across Northamptonshire and has entered into a pooling arrangement to seek to retain more of the business rates raised locally. It is anticipated by pooling the amount of business rate growth retained locally will be around 40%. This will be split 80:20 between districts and county councils.

3.4 ***Local Council Tax Support Scheme***

The existing Council Tax Benefit scheme will cease from the end of March 2013 under the provisions of the Welfare Reform Bill. This scheme is being replaced with a localised scheme administered by the Council. The Government announced that funding for the scheme will also be reduced by 10%, although in real terms the increase is greater than this. There is the expectation that expenditure will be reduced by 10% in this area to offset the decrease.

3.4.1 The Council has been working closely with other councils including the largest preceptor Northamptonshire County Council (NCC), to identify how some of this impact could be mitigated. The Local Council Tax Support Scheme received approval at the Council meeting held on 7 Jan 2013. The local scheme introduces changes which mitigate some of the changes being introduced by Government. Further information is in paragraph 5.8 below.

3.5 **Bridging the Funding Gap**

Over the medium term the council will need to increase its income or deliver savings to meet the funding gap. However, given the level of savings already achieved, the scope for further savings is limited. It is extremely unlikely that this gap can be bridged solely through continuing the approach applied to delivering savings previously. It is almost inevitable that, before the end of the current MTFS period, more radical options will need to be considered.

3.6 Many other councils are already in this position – the outsourcing proposals of Suffolk County Council and the London Borough of Barnet have received significant (albeit generally adverse) publicity, there are 22 pairs of councils now sharing management teams, and West Somerset Council recently announced that it was not financially viable in the medium-term and has been advised by DCLG to undertake a boundary review, presumably with a view to it potentially being absorbed by one of its neighbours.

3.7 There is the risk that the levels of savings required are not achieved. This risk will be reviewed and closely monitored to ensure any mitigating action is taken as necessary.

4.0 Medium Term Financial Strategy (MTFS) 2013/14 to 2016/17

4.1 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. 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.

4.2 The MTFS includes our capital spending plans as these have a direct and sometimes significant impact on our revenue expenditure.

4.3 The MTFS includes:

- estimated receipts from central government in the form of core funding, through Revenue Support Grant, Business Rates retained locally, 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
- transfers to or from the Council's revenue reserves.

4.4 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, government policy changes, 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.

4.5 The Council's financial strategy for the medium term is to:

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

4.6 The MTFS and Budget 2013/14 set out in this report have been developed to address the financial challenges identified above. 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.

4.7 The key assumptions in the MTFS 2013/17 are as follows:

Capital Programme	• The Council will invest up to £12m over the next 10 years. • Including £2.7m in improving its leisure centres and £4m in providing Disable Facilities Grants to the vulnerable. • Assets sales programme is ahead of schedule. • Capital governance is being improved with the establishment of a Development Pool.
Revenue Budget	• The Council will spend around £10m (net) each year. • There is no reliance on one-off funding from reserves over the MTFS period. • Savings of £0.7m are identified for 2013/14, with targets for further savings of £1.25m over the MTFS period.
Council Tax	• Continue with strategy of increasing council tax without triggering a local referendum to continue to maintain the current level of services to the residents of East Northamptonshire. • Council tax is assumed to be £128.65 for 2013/14, an increase of less than 10p a week for a band D property. • This would still be lowest in the county.

Government Funding	• New government funding for Business Rates provides the Council with an initial benefit of £0.4m due to its low baseline position. • To maximise the proportion of Business Rates growth retained locally the council will "pool" its business rates income with other councils in Northamptonshire. This means 40% of growth is retained locally as opposed to 25%. • In future years, Revenue Support Grant from Government is expected to reduce by 7.5% per annum.
Community Projects	• The Council will continue to set aside a proportion of New Homes Bonus over the next four years to fund investment in community projects and economic growth. • For 2013/14 the amount is forecast to be £365k, a 100% increase from 2012/13.
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.

4.8 There are always risks in making assumptions, and the current significant uncertainties, the fragility of the economy and the political decisions that will need to be taken by the coalition government, make financial planning beyond 2013/14 extremely difficult.

5.0 Key Risks and Assumptions

5.1 *Employee Costs*

5.1.1 Three years of pay freezes have preceded this MTFS period. The unions recently submitted to the Local Government Employers (LGE) a claim for a 'significant' pay increase in 2013/14.

5.1.2 The LGE have responded and "it has been made clear that employers want to avoid a fourth year of pay freeze and will be working within the extremely challenging financial constraints to try and make that happen."

5.1.3 The MTFS includes pay inflation at 1% in the short term, increasing to 2% after 2015/16. Government has indicated that an acceptable level of increase has been discussed at around 1% for 2013/14.

5.2 *Contract Costs*

5.2.1 As a result of new contracts started in 2012/13, contractual commitment costs for Environmental and Waste services are reducing. The contracts have been in place for a number of months and there is now more certainty when forecasting inflationary increases within the contract. In the MTFS presented to Finance Sub Committee in November 2012, contract inflation was estimated at 3.5%; the actual inflation is lower than this. This reduction in contract costs is anticipated to amount to around £100k.

5.3 *Fees & Charges*

5.3.1 The previous MTFS assumed an increase of 5% for all fees & charges across the Council. This rate was the same over the entire medium term plan period. This rate does not fully reflect increases in charges across the sector or mirror demand. To reflect the economic climate, Fees & Charges have been estimated to increase in line with the Retail Price Index (RPI).

5.4 *Borrowing Costs*

5.4.1 The Council currently does not have any borrowings. 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 to support the capital programme over the medium term 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. If the possibility of accelerating asset sales materialises, the need to borrow will be reduced. Where possible the Council will seek to use its surplus cash rather than borrow. This position will be kept under review.

5.5 *Investment Income*

5.5.1 The current low level of interest rates has resulted in significant reductions in our investment income. We assumed investment returns of 1% in 2012/13, increasing to 3% by 2015/16 as the economic position improves. It is now anticipated that investment returns will remain lower for longer than previously forecast and as a result the anticipated return on investment for 2013/14 is likely to be around 0.75%, increasing to around 1% by 2016/17. There are significant risks in estimating the rate at which the economic position will improve, and we have taken a relatively cautious view.

5.6 *Council Tax Base*

5.6.1 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 than 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 had previously assumed increases in the base of 200 houses in 2012/13 and each subsequent year of the MTFS. Average increases have been assumed at the same level as previous years.

5.6.2 The level of the council tax base has been significantly impacted upon by the changes to the Council Tax Support scheme and new council tax discounts and exemptions which have been implemented from 1 April 2013. Further information is in paragraph 5.8 below.

5.7 *Council Tax Freeze Grant (CTFG) and Council Tax increases*

5.7.1 In October 2012 a new CTFG for 2013/14 was announced which provided councils that freeze tax levels with a grant equivalent to a 1% rise.

5.7.2 Given the Council's current comparatively very low level of Council Tax, Members took the view during the budget setting for 2012/13, that council tax should be increased by the maximum amount permitted by the government without triggering a local referendum. It was therefore assumed in the MTFS that it will increase Council Tax by 3.5% each year of the MTFS.

5.7.3 The Secretary of State has proposed that a 2% referendum principle will apply for all principal local authorities in 2013/14.

5.7.4 The exception to this will be Shire Districts, Police and Crime Commissioners and Fire and Rescue authorities whose 2012/13 council tax was in the lower quartile of their category of authority. For these authorities a referendum need only be held where the authority increases council tax by more than 2% and there is a cash increase that is more than £5 for the year in the basic amount.

5.7.5 The exception described above applies to ENC, which is in the lower quartile (in fact the lowest 7%) for District Councils. The policy set out in February 2012 as part of the budget was to increase council tax as far as possible without resulting in a referendum. This principle has been incorporated into the 2013/14 budget with the assumption of a £5 (4.04%) increase, and 2% increases in council tax in later years. It should be noted that the level for future years will be confirmed by the Secretary of State on an annual basis.

5.7.6 The Secretary of State does not propose to apply this principle for local precepting authorities (Town and Parish Councils) for 2013/14. However, he intends to revisit this issue next year.

5.8 ***Council Tax Support Scheme (CTS)***

5.8.1 The Council has consulted on the proposed CTS and invited feedback. The results of the consultation were presented to Council on 7 January 2012.

5.8.2 The MTFS assumes that there will be no overall effect on the Council's finances as a result of implementing the scheme.

5.8.3 A collection rate of 70% has been assumed for the CTS element of the tax base but it is hoped that this can be exceeded.

5.8.4 The largest proportion of the council tax that is collected is passported to NCC. The Council is working with NCC to put arrangements in place for returning a larger proportion of any additional council tax income collected back locally, for example into funding the shortfall between the cost of Disabled Facilities Grants and the funding provided by the government for those grants .

5.8.5 The Council currently gives some discounts and exemptions in relation to council tax. The discounts and exemptions have been reviewed alongside the proposals for council tax support. The proposed changes to discounts and exemptions were approved by Policy & Resources Committee and then Council in January 2013 and the financial effect of the proposals to reduce or withdraw those discounts have been included in the MTFS.

5.9 ***Council Tax Support Funding***

5.9.1 ENC will receive two streams of Council Tax Support Funding in 2013/14 to support the implementation of CTS. This funding is not ring-fenced and can be used to support any spending the Council incurs. Government indicated that a proportion of this funding could be passported to local precepting authorities at the Council's discretion.

5.9.2 The two funding streams are:

- An on-going grant to off set (less a 10% reduction) the reduced tax base resulting from the changes to CTS. This grant is included within the Government funding formula and is expected to reduce in future years in line with government funding.
- A one off transition grant for 2013/14 as the Council is implementing a CTS scheme which limits the liability for council tax to 8.5%. It is assumed this grant will not be received in future years and that this funding stream will be replaced following a review of the scheme, including the level of council tax liability.

5.9.3 The MTFS assumes that this funding is passported to local precepting authorities in 2013/14 to support with the transition to the CTS scheme from 1 April 2013 and to ensure that no local precepting authority receives less funding that it did in 2012/13.

5.9.4 The MTFS assumes that this funding is not passported in later years due to the financial uncertainty over the medium term.

5.10 ***New Homes Bonus (NHB)***

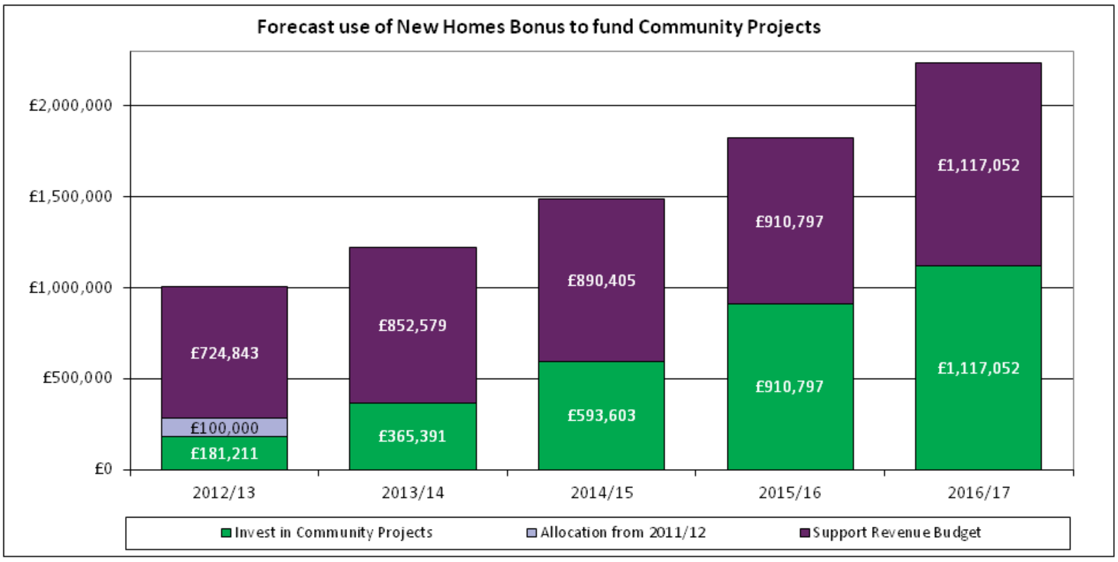
5.10.1 NHB was introduced in 2011/12 following the withdrawal of Housing & Planning Delivery Grant during 2010/11. It is based on the number of properties added to the Council Tax base in the year to 31 October, either as new homes or empty homes brought back into use.

5.10.2 Council decided last year to move towards setting aside 50% of the NHB grant towards investment in infrastructure for sustainable development. Due to the Council's ongoing budget deficit, the decision was taken 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% by 2015/16 and thereafter.

5.10.3 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.

5.10.4 For 2013/14, the Council will receive NHB of £1.2m in respect of new homes for the year to 31 October 2012. 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.

5.10.5 The graph below sets out the forecast level of NHB over the MTFS and identifies the amount set aside for community projects on the basis of the current policy.



5.10.6 There is great uncertainty as to how fast the UK economy will recover. This reduces expectations for recovery of the housing market and therefore what level of NHB we will receive in future years.

5.10.7 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 funding will be reduced in future to allow the government to afford to continue the scheme.

5.11 ***Government Funding***

5.11.1 The large reductions in Revenue Support Grant (RSG) and NNDR for 2011/12 and 2012/13 reflected the savings required over the life of SR10. It was anticipated that RSG would reduce further during 2013/14 and 2014/15. The MTFS previously assumed reductions in funding of 5% for each year of the MTFS.

5.11.2 There is a lot of uncertainty about future funding and only limited information is available for the first 2 years of the MTFS. However, informal comments from Whitehall suggest that the settlement will be worse than forecast, so beyond 2014/15 it has been assumed that funding will reduce by 7.5% each year to reflect the ongoing uncertainty and increased risk.

5.11.3 The Final Local Government Finance Settlement 2013/14 has not yet been announced, it is still provisional. We do not anticipate any changes to the MTFS; however, it is subject to possible change.

6.0 Revenue Budget 2013/14

6.1 The Council is committed to focusing the resources on its priorities and will continue to drive out efficiencies to meet the financial challenges over the medium term.

6.2 The Council plans to spend £9.9m in 2013/14 with a budget requirement of £10.8m. A summary of the revenue budget for 2013/14 is set out below.

2012/13		2013/14
£		£
1,868,010	Customer and Community Services	1,988,930
2,764,450	Environmental Services	2,713,870
928,000	Information Technology	919,930
1,741,340	Resources and Organisational Development	1,810,740
973,250	Planning Services	1,280,550
1,699,090	Corporate and Democratic Core	1,233,790
9,974,140	**Total Net Expenditure**	**9,947,810**
(545,399)	Amount to be met from Reserves	0
0	Transfer to Earmarked Reserves	331,067
181,211	Community Projects	365,391
0	Savings Options	0
23,160	Net Interest Received & Paid	113,136
9,633,112	**Budget Requirement**	**10,757,404**

6.3 The budget includes savings proposals which have recently been implemented or are being developed to help bridge the funding gap that exists over the period of the MTFS.

6.4 The total service net expenditure in the revenue budget for 2013/14 is £26k lower than the approved budget 2012/13. This is due to the following changes:

	£
Revenue Budget Net Service Expenditure 2012/13	9,974
Service Pressures and Budget Increases	672
Savings and Additional Income (excl. Government Funding and Council Tax)	(698)
Revenue Budget Net Service Expenditure 2013/14	**9,947**

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

7.0 Capital Programme 2013/14 to 2021/22

7.1 The main aim of the Capital Programme 2013/14 to 2021/22 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 reviewed and scrutinised in the same way as revenue to ensure the schemes put forward meet the Council’s priorities.

7.2 The programme is focussed on maintaining business continuity, meeting statutory obligations and investing in assets to improve revenue income streams. The capital programme how it is funded is shown in the table below:

	Approved Capital Expenditure 2013/14 £	Development Pool 2013/14 to 2022/23 £
Housing	400,000	3,600,000
Leisure & Tourism	2,709,500	46,500
Environment	45,855	146,410
Corporate Systems	116,200	4,075,000
Essential Property Maintenance	6,650	250,000
Vehicle Replacements	16,600	66,400
Capital Programme	**3,294,805**	**8,184,310**
Funded by:		
Capital Reserves *(Incl. Asset Sales)*	168,000	4,900,000
Government Grant *(Disabled Facilities Grant)*	170,000	1,530,000
Borrowing	2,956,805	1,754,310
Total Funding	**3,294,805**	**8,184,310**

7.3 It is anticipated that the remaining capital reserves will be fully utilised by the end of 2013/14. The future capital programme will be funded from 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 its surplus cash or 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 unless other ways can be found to fund the programme.

7.4 A number of identified asset sales are progressing well, with agents appointed, bids received and one small sale completed. It is anticipated that the asset sales may happen sooner than forecast but due to the significant risks to recovery of the housing market and possible reduced demand for land for residential use, a prudent view have been taken.

7.5 ***Improvements to Leisure Centres (Nene Centre & Pemberton Centre)***

7.5.1 Improvement works to Nene Centre (£0.7m) and Pemberton Centre (£1.5m) are forecast to be spent during 2013/14, along with £0.5m on leisure equipment. These budgets are in line with budgets approved by Council in July 2012 and January 2013 for these projects. The improvement works are part of an invest to save initiative to increase income from the Council's leisure centre assets in order to reduce the subsidy provided to Cultural Community Partnership the trust that runs the leisure centres.

7.6 ***Disabled Facilities Grants (DFGs)***

7.6.1 DFGs are grants paid to the disabled in order to adapt their homes to facilitate them being able to continue to live in their own property. The capital programme assumes £400k will be spent in 2013/14, £170k of this is funded by Government Grant and £230k is funded by the Council. Over the 10 year programme the Council plans to invest £4m in DFGs. The benefits of investing in DFGs are seen in the housing, social care and health sectors.

7.6.2 The Council is current working in conjunction with NCC to assess the benefit to the social care function with a view to securing more resources to finance DFG expenditure. In addition the Council is represented on a national DFG Focus Group which is seeking to raise awareness of the benefits of investing in DFGs, promote DFG best practice across the public sector and seek additional resources from Government in the next Spending Review for DFGs. A report on this work will be presented to Policy & Resources during spring 2013.

7.7 ***New Governance Arrangements for Capital Programme***

7.7.1 As part of improvements to managing and controlling spending the Council will be introducing new governance arrangements for capital spending. This follows a review of capital planning, monitoring, reporting and the control environment.

7.7.2 For the past few years the Council has had a 10 year capital programme. This is a leading edge position for a local authority and a 10 year planning horizon for capital investment needs to be maintained. However, it is increasingly difficult to predict budgeted costs for capital schemes until initial feasibility, detailed scheme scoping and procurement has been undertaken. This has been demonstrated with the Nene Centre and Pemberton Centre schemes recently.

7.7.3 The frame work for the new governance arrangements is as follows:

- Split the 10 year capital plans into an agreed Capital Programme and a Development Pool.
- The Capital Programme are those schemes where the cost is certain and schemes where money is drawn down from a resource limited cash pot each year (e.g. DFGs).
- The Development Pool will be those schemes which do not meet the above criteria. Typically these will be schemes which are in the early stages of their development and, as such, costs are uncertain.
- To move from the Development Pool to the Capital Programme a decision will be required by Council to include the scheme and its budget into the main capital programme. This will be done through the annual budget setting round and through the quarterly capital monitoring reports.
- To enable the feasibility, detailed scoping and procurement of schemes up to 15% of the initial cost can be released so long as these have been approved by Chief Finance Officer and Chair of Finance Sub Committee.

7.7.4 Further details on the new governance arrangements will be presented to Finance Sub Committee at its meeting in March 2013.

8.0 Annual Treasury Management Strategy

8.1 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 the new requirements on how capital spending plans should be considered when determining the Council’s Treasury Management Strategy for the next four financial years.

8.2 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.

8.3 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

8.4 The Council's Treasury Management Strategy is set out in Appendix 4.

9.0 Reserves and Balances Strategy

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

9.2 ***Minimum Level of Reserves***
There is a regulatory requirement to set a minimum level of reserves.

9.3 Having considered the risks facing the Council in the short, medium and long term its is proposed to maintain 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 maintain the minimum level to £2m to reflect the uncertainties currently facing the Council. These include the recoverability of the costs of replacing the Nene Centre Roof, the delivery of a cost reduction programme to ensure on-going revenue spending is sustainable, and changes to Government policy which could significantly impact on the Council's funding position (e.g. embedding localisation of business rates & CTS, council tax discounts and impending implementation of universal credit)

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

	Forecast position as at				
	31/3/2013 £000	31/3/2014 £000	31/3/2015 £000	31/3/2016 £000	31/03/2017 £000
Asset Management and Regeneration	2,821	3,152	3,220	3,289	3,357
Elections	120	120	0	30	60
Insurance	100	100	100	100	100
Community Projects	195	0	0	0	0
Planning	85	0	0	0	0
Environment	40	0	0	0	0
Land Charges	14	0	0	0	0
Empty Homes	24	0	0	0	0
Earmarked Revenue Reserves	**3,398**	**3,372**	**3,321**	**3,420**	**3,518**
Underlying minimum level of reserves	1,000	1,000	1,000	1,000	1,000
Enhanced minimum level of reserves	1,000	1,000	1,000	1,000	1,000
Total Revenue Reserves	**5,398**	**5,372**	**5,321**	**5,420**	**5,518**
Capital Reserve	287	0	0	0	0
Capital Receipts Reserve		217	326	0	0
Total Capital Reserves	**287**	**217**	**326**	**0**	**0**
Total Reserves	**5,685**	**5,590**	**5,647**	**5,420**	**5,518**

10.0 Fees and Charges

10.1 The Council charges fees for some services that it provides. This means the people who actually use these individual services help pay for what they receive.

10.2 The Fees and Charges applicable from 1 April 2013 are shown at Appendix 5.

11.0 Equality and Diversity Implications

11.1 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 help deliver the savings yet to be identified.

12.0 Legal Implications

12.1 There are no legal implications arising from the report.

13.0 Risk Management

13.1 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.

13.2 The key risks relating to the MTFS are:

- Unable to recover costs for replacement of Nene Centre Roof
- Major uncertainty regarding future Government funding levels
- Uncertainty around the impact of localisation of Council Tax
- Uncertainty around impact of Business Rates Retention and pooling
- Uncertainty around levels of growth, nationally and locally
- Inability to deliver cost reduction programme

14.0 Financial Implications

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

15.0 Corporate Outcomes

15.1 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

16.0 Recommendations

16.1 Subject to the approval of the level of Council Tax at Council, Finance Sub Committee is recommended to propose the contents of this report to Policy & Resources Committee on 11 February 2013, and recommend that Policy & Resources Committee resolve to recommend the contents of the report to Council as part of the budget setting process. Specifically the Finance Sub Committee is recommended to propose to Council that the following be approved / agreed:

- Medium Term Financial Strategy (MTFS)
- Revenue Budget 2013/14
- Capital Programme for 2013/14-2021/22 (subject to the ongoing review of schemes within that programme)
- Treasury Management Strategy
- Fees and Charges

(Reason: To ensure that the Sub-Committee is aware of the forecast financial position so that in due course the Council complies with its constitution in setting its Budget).

<table>
<tr><td rowspan="2">Legal</td><td colspan="5">Power:</td></tr>
<tr><td colspan="5">Other considerations:</td></tr>
<tr><td colspan="6">Background Papers: None</td></tr>
<tr><td colspan="6">Person Originating Report: Glenn Hammons, Chief Finance Officer, Section 151 Officer, 01832 742267 ghammons@east-northamptonshire.gov.uk</td></tr>
<tr><td colspan="6">Date: 31 January 2013</td></tr>
<tr><td>CFO</td><td></td><td>MO</td><td></td><td>CX</td><td></td></tr>
</table>

Medium Term Financial Strategy 2013/14 to 2016/17

2012/13 Revised Budget £		2013/14 Draft Budget £	2014/15 Indicative Budget £	2015/16 Indicative Budget £	2016/17 Indicative Budget £
1,868,010	Customer and Community Services	1,988,930	1,635,790	1,648,721	1,713,379
2,764,450	Environmental Services	2,713,870	2,798,032	2,931,304	3,074,562
928,000	Information Technology	919,930	940,082	970,015	1,000,772
1,741,340	Resources and Organisational Development	1,810,740	1,852,441	1,903,791	1,956,510
973,250	Planning Services	1,280,550	1,253,882	1,291,768	1,330,666
1,699,090	Corporate and Democratic Core	1,233,790	1,378,428	1,409,660	1,441,698
9,974,140	**Total Service Expenditure**	**9,947,810**	**9,858,654**	**10,155,258**	**10,517,587**
	Other Expenditure/Adjustments				
(545,399)	Amount to be met from Reserves	0	0	0	0
0	Transfer to Earmarked Reserves	331,067	68,473	68,473	68,473
181,211	Community Projects (New Homes Bonus)	365,391	593,603	910,797	1,117,052
0	Savings options to be determined	0	(55,951)	(472,400)	(778,834)
23,160	Net Interest Received / Paid	113,136	(66,784)	(67,034)	(30,284)
(341,028)	**Total Other Adjustments**	**809,594**	**539,341**	**439,836**	**376,407**
9,633,112	**Total Budget Requirement**	**10,757,404**	**10,397,996**	**10,595,094**	**10,893,994**
	Sources of Funding				
(4,831,611)	Revenue Support Grant/NNDR				
38,850	Transfer From Collection Fund	(1,250)	0	0	0
(906,055)	New Homes Bonus	(1,217,970)	(1,484,008)	(1,821,593)	(2,234,103)
(91,096)	Council Tax Freeze Grant 2011/12				
	Revenue Support Grant	(3,164,547)	(2,418,224)	(2,176,402)	(1,958,761)
	Business Rates Retention	(2,675,419)	(2,675,419)	(2,675,419)	(2,675,419)
	Council Tax Support Transition Grant	(15,181)	0	0	0
(47,100)	Other income grants	(62,839)	(85,345)	(85,345)	(85,345)
(5,837,012)	**Total Funding**	**(7,137,206)**	**(6,662,997)**	**(6,758,759)**	**(6,953,629)**
3,796,100	**Amount to be met from Council Tax**	**3,620,198**	**3,734,999**	**3,836,334**	**3,940,365**
30,700	**Council Tax Base**	**28,140**	**28,463**	**28,663**	**28,863**
123.65	**Equivalent Band D Tax**	**128.65**	**131.22**	**133.84**	**136.52**
	% change in Council Tax	**4.04%**	**2.00%**	**2.00%**	**2.00%**

2013/14 Revenue Budget Changes

Service Area	Change	Salary Incr./(Decr.)	Pay Inflation	Contract Inflation	Service Pressure	Efficiency	Additional Income	Service Reduction	Net Change
		£000	£000	£000	£000	£000	£000	£000	£000
Customer and Community Services	Transfer CCTV contract to Town and Parish Councils							(49)	(49)
	Staff Budget Efficiencies	(49)							(49)
	Reduction in Grants Awarded							(36)	(36)
	Increase of Empowerment budget from New Homes Bonus				20				20
	Council Tax Support Grant to Town and Parish Councils				195				195
	Community & Cultural Partnerships (CCP) Reduced Management Charge					(171)			(171)
	Other Changes less than £10k					(19)	(16)		(35)
Environmental Services	Staff Budget Efficiencies	(39)							(39)
	Savings on Contract Charges (Recycling, Refuse Collection, Street Cleaning)			(103)					(103)
	Increase in Licencing Fee Income						(2)		(2)
	Reduced Income				8				8
	Empty Homes - funded by New Homes Bonus					(12)			(12)
Information Technology	Reduction in IT licence & maintenance costs					(46)			(46)
	Other Changes less than £10k				11				11
	Staff Budget Efficiencies	(10)							(10)
Resources and Organisational Development	Staff Budget Efficiencies	(12)							(12)
	Transfer Public Conveniences to Town Councils - No Repairs & Maintenance							(22)	(22)
	Ten years safety checks on 4 Lifts				3				3
	Employers National Insurance Contributions on leased cars				4				4
	Hard wire testing on Kings Cliffe Industrial Units				15				15
	Other Changes less than £10k					(3)			(3)
Planning Services	Staff Budget Efficiencies	(27)							(27)
	Homelessness new contract and funding changes				70	(22)			48
	Reduction in income				150				150
	Other changes less than £10k					(10)			(10)
	Cost of Local Development Framework reduced					(20)			(20)
Corporate and Democratic Core	Pension Cost Increase				132				132
	Deletion of contingency budget					(50)			(50)
	Changes in External Fees				4	(12)			(8)
	Staff Budget Efficiencies	31							31
	1% Estimated increase on ENC payroll		60						60
Total Revenue Budget Changes		**(105)**	**60**	**(103)**	**612**	**(365)**	**(18)**	**(107)**	**(26)**

East Northamptonshire Council Capital Programme

Approved Capital Programme	2013/14					2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
	Current Budget	Actual & Committed	Forecast Outturn	Variance *(Outturn vs Budget)*	Slippage *(Roll Fwd. Request)*	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Total
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Housing Projects	**400,000**	**-**	**400,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**400,000**
Leisure and Tourism Projects	**2,709,500**	**-**	**2,709,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,709,500**
Environment Projects	**45,855**	**-**	**45,855**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**45,855**
Central Services Projects	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate Systems	**116,200**	**-**	**116,200**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**116,200**
Essential Property Maintenance	**6,650**	**-**	**6,650**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,650**
Vehicle Replacements	**16,600**	**-**	**16,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,600**
Total	**3,294,805**	**-**	**3,294,805**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,294,805**

Approved Capital Project	Responsible Officer	Service	Current Budget	Actual & Committed	Forecast Outturn	Variance	Slippage	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Disabled Facilities Grants	Mike Deacon	Housing	400,000	-	400,000	-	-	-	-	-	-	-	-	-	-	-	400,000
The Pemberton Centre Rushden	Katy Everitt	Leisure & Tourism	6,000	-	6,000	-	-	-	-	-	-	-	-	-	-	-	6,000
Pemberton Centre - Improvements	Katy Everitt	Leisure & Tourism	1,500,000	-	1,500,000	-	-	-	-	-	-	-	-	-	-	-	1,500,000
Nene Community Centre - Improvements	Katy Everitt	Leisure & Tourism	703,500	-	703,500	-	-	-	-	-	-	-	-	-	-	-	703,500
Nene Community Centre - Roof	Katy Everitt	Leisure & Tourism		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leisure Equipment	Lisa Hyde	Leisure & Tourism	500,000	-	500,000	-	-	-	-	-	-	-	-	-	-	-	500,000
Stanwick Lakes - Infrastructure	Lisa Hyde	Leisure & Tourism		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Greenway Phase3	Lisa Hyde	Environment	45,855	-	45,855	-	-	-	-	-	-	-	-	-	-	-	45,855
Replacement Dog Warden Vans	Mike Deacon	Vehicle Replacements	16,600	-	16,600	-	-	-	-	-	-	-	-	-	-	-	16,600
Industrial Units	Katy Everitt	Essential Property Maintenance	6,650	-	6,650	-	-	-	-	-	-	-	-	-	-	-	6,650
Replacement PC`S, Monitors & Laptops	Gareth Jones	Corporate Systems	25,000	-	25,000	-	-	-	-	-	-	-	-	-	-	-	25,000
Replacement Servers	Gareth Jones	Corporate Systems	20,000	-	20,000	-	-	-	-	-	-	-	-	-	-	-	20,000
Data Infrastructure Equipment	Gareth Jones	Corporate Systems	29,370	-	29,370	-	-	-	-	-	-	-	-	-	-	-	29,370
CAPS Solutions/ERMS	Gareth Jones	Corporate Systems	41,830	-	41,830	-	-	-	-	-	-	-	-	-	-	-	41,830
Total			**3,294,805**	**-**	**3,294,805**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,294,805**

East Northamptonshire Council Capital Programme

Development Pool	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 £	2022/23 Estimate £	Total £
Housing Projects	**-**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**400,000**	**3,600,000**
Leisure and Tourism Projects	**46,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**46,500**
Environment Projects	**56,410**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**146,410**
Central Services Projects	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate Systems	**360,000**	**370,000**	**460,000**	**470,000**	**520,000**	**260,000**	**235,000**	**500,000**	**450,000**	**450,000**	**4,075,000**
Essential Property Maintenance	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**	**250,000**
Vehicle Replacements	**-**	**16,600**	**-**	**-**	**-**	**16,600**	**16,600**	**16,600**	**-**	**-**	**66,400**
Total	**487,910**	**821,600**	**895,000**	**905,000**	**955,000**	**711,600**	**686,600**	**951,600**	**885,000**	**885,000**	**8,184,310**

Development Pool	Responsible Officer	Service	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Disabled Facilities Grants	Mike Deacon	Housing	-	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	3,600,000
Splash Pool	Katy Everitt	Leisure & Tourism	46,500	-	-	-	-	-	-	-	-	-	46,500
HI 4 EM	Mike Deacon	Environment	39,020	-	-	-	-	-	-	-	-	-	39,020
Replacement of Wheelie Bins	Mike Deacon	Environment	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000
District Car Parks	Katy Everitt	Environment	11,950	-	-	-	-	-	-	-	-	-	11,950
Closed Churchyard, Polebrook	Katy Everitt	Environment	5,440	-	-	-	-	-	-	-	-	-	5,440
Replacement Dog Warden Vans	Mike Deacon	Vehicle Replacements	-	16,600	-	-	-	16,600	16,600	16,600	-	-	66,400
Essential Property Maintenance	Katy Everitt	Essential Property Maintenance	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	250,000
Service Transformation Programme	Gareth Jones	Corporate Systems	-	60,000	-	-	-	-	-	60,000	-	-	120,000
Replacement PC`S, Monitors & Laptops	Gareth Jones	Corporate Systems	-	35,000	35,000	15,000	15,000	35,000	35,000	15,000	15,000	15,000	215,000
Replacement Printers & Scanners	Gareth Jones	Corporate Systems	15,000	15,000	5,000	5,000	15,000	5,000	5,000	5,000	10,000	10,000	90,000
Replacement Servers	Gareth Jones	Corporate Systems	-	10,000	30,000	15,000	20,000	30,000	10,000	10,000	25,000	25,000	175,000
Replacement Sun Server	Gareth Jones	Corporate Systems	-	-	-	30,000	-	-	-	-	30,000	30,000	90,000
UPS for L12	Gareth Jones	Corporate Systems	-	-	-	20,000	-	-	-	20,000	-	-	40,000
Data Infrastructure Equipment	Gareth Jones	Corporate Systems	-	15,000	100,000	5,000	10,000	5,000	5,000	20,000	15,000	15,000	190,000
Licences	Gareth Jones	Corporate Systems	115,000	125,000	120,000	155,000	110,000	135,000	120,000	115,000	150,000	150,000	1,295,000
Storage/Replacement SAN	Gareth Jones	Corporate Systems	10,000	10,000	10,000	50,000	5,000	10,000	10,000	10,000	60,000	60,000	235,000
Council Chamber Project Screen	Gareth Jones	Corporate Systems	25,000	-	-	5,000	-	-	-	25,000	-	-	55,000
Security Systems/GovConnect	Gareth Jones	Corporate Systems	20,000	10,000	10,000	30,000	10,000	10,000	10,000	10,000	10,000	10,000	130,000
ESRI - GIS Upgrade	Gareth Jones	Corporate Systems	70,000	-	-	10,000	-	-	10,000	-	70,000	70,000	230,000
CAPS Solutions/ERMS	Gareth Jones	Corporate Systems	-	10,000	40,000	10,000	10,000	20,000	10,000	200,000	10,000	10,000	320,000
Revenues and Benefits Upgrade	Gareth Jones	Corporate Systems	50,000	10,000	10,000	15,000	15,000	10,000	10,000	10,000	15,000	15,000	160,000
CRM Upgrades	Gareth Jones	Corporate Systems	-	70,000	-	-	300,000	-	-	-	-	-	370,000
Telephone System	Gareth Jones	Corporate Systems	15,000	-	100,000	-	10,000	-	10,000	-	-	-	135,000
Rushden Centre BC/DR	Gareth Jones	Corporate Systems	40,000	-	-	25,000	-	-	-	-	40,000	40,000	145,000
Replacement Finance System	Gareth Jones	Corporate Systems	-	-	-	80,000	-	-	-	-	-	-	80,000
Total			**487,910**	**821,600**	**895,000**	**905,000**	**955,000**	**711,600**	**686,600**	**951,600**	**885,000**	**885,000**	**8,184,310**
Total Approved Programme and Development Pool			**3,782,715**	**821,600**	**895,000**	**905,000**	**955,000**	**711,600**	**686,600**	**951,600**	**885,000**	**885,000**	**11,479,115**

East Northamptonshire Council
Treasury Management Strategy Statement
and Investment Strategy 2013/14

Contents

1. Context

2. Economic Outlook

3. Outlook for Interest Rates

4. Borrowing Requirement and Strategy

5. MRP Strategy

6. Investment Policy and Strategy

7. Balance Budget Requirement

8. Reporting

<u>Appendices</u>

A. Prudential Indicators
B. Interest Rate Outlook
C. Specified and Non-specified Investments for use by the Council
D. Criteria to be used for maintaining approved counterparty lists and limits

1. Context

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.

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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, 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)

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

- Treasury Management Strategy for 2013/14
- Prudential Indicators
- MRP Strategy
- Use of Specified and Non-Specified Investments
- Criteria for accepting counterparties on to the Council's approved lending list

2. Outlook for the Economy and Interest Rates

2.1. The economic interest rate outlook provided by the Council's treasury advisor Arlingclose Ltd is attached at Appendix B.

2.2. ***Background***
The UK economy has shown continuous retraction during the first half of 2012 and despite this poor growth resulting in much weaker public finances than forecasted, the Chancellor maintained the deficit-cutting strategy in the Autumn Statement. The effectiveness of Quantitative Easing (QE) is yet to be assessed, but there is no further monetary policy response expected in the near term.

2.3. ***Outlook***
Consumer Price Index is 2.7% having fallen from its peak of 5.2%. In the short term CPI is likely to be affected by the volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.

2.4. There was optimism within the Eurozone after the announcement of the ECB's Outright Monetary Transactions (OMT) initiative; this has been eroded after Germany and other core Eurozone countries scuppered a deal that would have allowed Spain's banks to recapitalise. A solution to the Eurozone crisis is some way off as there is little appetite for fiscal reform.

2.5. There is renewed optimism following Q3 results, supported by strong employment data and declining inflation that should feed some stability in real incomes. Underlying growth will probably remain soft in the near term whilst uncertainty over Europe persists.

2.6. 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 recommend to be fixed will remain short. As such, the expected level the Council can invest money at is expected to remain low.

2.7. 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 %
2012/13	0.70
2013/14	0.75
2014/15	1.00
2015/16	1.00
2016/17	1.00

3. The Treasury Position

3.1. The Council's estimated treasury position for 31/3/2013 and for the following financial years is:

	31/3/2013 Estimate £m	% Return	31/3/2014 Estimate £m	31/3/2015 Estimate £m	31/3/2016 Estimate £m	31/3/2017 Estimate £m
Investments	10.0	0.75	9.0	8.0	7.0	7.0
Total Investments	**10.0**	**1.00**	**9.0**	**8.0**	**7.0**	**7.0**

3.2. The estimate for interest receipts in 2012/13 is £64k. The estimates for 2013/14 and subsequent years take into consideration the current portfolio and the outlook for interest rates. The impact on interest earned has been reflected in our financial plans.

4. Investment Policy and Strategy

4.1. ***Background***

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.

4.2. Investment Policy

4.2.1. The Council's general policy objective is to invest its surplus funds prudently. Due to the on going uncertainty in the banking sector which has seen institutions fold, it is 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.

4.2.2. 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.

4.2.3. 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 counterparties to invest with and this list will be restricted to any advice given from the Council's Treasury.

4.3. Investment Strategy

4.3.1. The Council's investment strategy for 2013/14 will be based solely on the priorities listed in 4.2.1 above.

4.3.2. 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.

4.3.3. 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.

4.4. ***Investments Managed In-House***

4.4.1. 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).

4.4.2. The Council's shorter term cash flow 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.

4.4.3. 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
- Collective Investment Schemes (pooled funds) as outlined in 4.6 below
- The associated increase in credit risk from a longer-term investment is managed by using counterparties meeting the Council's longer-term credit criteria

4.5. *Investments Managed Externally*

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

4.6. *Collective Investment Schemes (Pooled Funds)*

4.6.1. 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.

4.6.2. 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.

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

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

4.7.1. 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. 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.

4.8. *Investments which constitute Capital Expenditure*

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

5. Borrowing Requirement and Strategy

5.1. 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 (MRP) from the Revenue budget each year.

5.2. 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.

5.3. 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.

5.4. ***Balance Sheet Summary***

5.4.1. As indicated in table 1, the Authority is currently debt free and its capital expenditure plans do not currently imply any external borrowing requirement in 2013/14. The medium term however indicates that the Authority will have a gross borrowing requirement, but has sufficient balances and reserves to avoid the need for external borrowing. By essentially lending its own surplus funds to itself the Authority is able to minimize borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances.

Table 1	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
General Fund CFR	(1,462)	(540)	761	761
Total CFR	**(1,462)**	**(540)**	**761**	**761**
Less: External Borrowing	-	-	-	-
Less: Other Long Term Liabilities	(799)	(656)	(510)	(361)
Gross Borrowing Requirement	**(2,261)**	**(1,196)**	**251**	**400**
Usable Cash Balances	(5,461)	(5,483)	(9,035)	(9,101)
Net Borrowing Requirement/(Investments)	**(7,722)**	**(6,679)**	**(8,785)**	**(8,702)**

5.5. ***Sources of Borrowing and Portfolio Implications***

5.5.1. 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

5.5.2. 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.

5.5.3. 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.

6. Annual MRP Statement

6.1. 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 2013/14.

6.2. 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.

6.3. 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, properties and any potential recovery of monies from pending legal action in the next 2-3 years. This will be reviewed on an annual basis.

6.4. MRP in respect of leases and Private Initiative Schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principle repayment for the associated deferred liability.

6.5. 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.

6.6. The Council's CFR at 31 March 2013 is estimated to be negative and therefore is no requirement to charge MRP in 2013/14.

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 Sub-Committee, 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	2012/13 Approved £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
General Fund	4,162	3,004	3,783	822	895
Total	**4,162**	**3,004**	**3,783**	**822**	**895**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing				
	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Reserves	1,734	168	652	725
Government Grants / Contributions	1,070	170	170	170
Revenue Contributions	200	-		
Total Funding	**3,004**	**338**	**822**	**895**
Supported Borrowing	-	-	-	-
Unsupported Borrowing	-	3445	-	-
Estimated Borrowing	**0**	**3,445**	**0**	**0**
Total Financing	**3,004**	**3,783**	**822**	**895**

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	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
General Fund	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**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 capital 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[1].

Capital Financing Requirement	2012/13 Approved £'000	2012/13 Estimate £'000	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
General Fund	(2,401)	(1,462)	761	761	761
Total CFR	**(2,401)**	**(1,462)**	**761**	**761**	**761**

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 2012/13 nor are difficulties envisaged for the current or future financial years.

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[1] *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.*

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 31/3/2013	£'000
Borrowing	-
Other Long-term Liabilities	656
Total	**656**

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	2012-13 Approved £	2012-13 Revised £	2013-14 Estimate £	2014-15 Estimate £	2015-16 Estimate £
Increase in Band D Council Tax	1.36	0.96	0.74	0.30	0.33

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	2012/13 Approved £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Borrowing	4,800	4,200	4,200	4,200	4,200
Other Long-term Liabilities	200	800	700	600	500
Total	**5,000**	**5,000**	**4,900**	**4,800**	**4,700**

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	2012/13 Approved £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Borrowing	4,800	2,450	2,450	2,450	2,450
Other Long-term Liabilities	200	800	660	550	350
Total	**5,000**	**5,000**	**3,110**	**3,000**	**2,800**

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 its 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.

	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	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

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.

	2012/13 Approved £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Upper Limit for total principal sums invested over 364 days	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**

APPENDIX B

Arlingclose’s Economic & Interest Rate Forecast

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	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	-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
3-month LIBID													
Upside 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
Central case	**0.75**	**0.75**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
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
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	**1.50**	**1.40**	**1.50**	**1.50**	**1.60**	**1.60**	**1.70**	**1.70**	**1.70**	**1.80**	**1.80**	**1.80**	**1.80**
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	0.25	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	**0.60**	**0.60**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.90**	**0.90**	**0.90**	**0.90**	**0.90**	**0.90**
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	0.50	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	**1.50**	**1.40**	**1.50**	**1.60**	**1.60**	**1.70**	**1.70**	**1.80**	**1.80**	**1.80**	**1.90**	**1.90**	**1.90**
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	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**2.50**	**2.40**	**2.40**	**2.40**	**2.50**	**2.50**	**2.60**	**2.50**	**2.50**	**2.60**	**2.60**	**2.60**	**2.60**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
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	**3.00**	**2.90**	**2.90**	**3.00**	**3.10**	**3.10**	**3.20**	**3.20**	**3.20**	**3.20**	**3.20**	**3.30**	**3.30**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

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
- [2]Certificates of deposit with banks and building societies
- [2]Gilts : (bonds issued by the UK government)
- [2]Bonds issued by multilateral development banks
- Money Market Funds, i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
- [2]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.

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)

Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; A+ or equivalent for non-UK sovereigns).

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[2] *Investments in these instruments will be on advice from the Council's treasury advisor*

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:

Instrument	In-House use	Maximum maturity	Max % of portfolio	Capital expenditure
Term Deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	Yes	*2 years*	*50%* in aggregate	No
Term deposits with local authorities	Yes		*50% in aggregate*	No
Investments with part nationalised banks and building societies	Yes	*3 Months*	*£3m*	No
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	Yes	*5 years*	*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	Yes	*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	Yes	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*	*£3m*	No
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	Yes	These funds do not have a defined maturity date	*£3m*	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; A+ 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
    - Subjective overlay

The Councils Bank

The Council 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 counterparty:

Country	Instrument	Rating	Individual Limit	Group Limit
UK (AAA)	Fixed Deposits / CDs / Call Accounts	A-/A3/A-	£3m	£3m
Non-UK (AAA)	Fixed Deposits / CDs / Call Accounts	A+/A1/A+	£3m	£3m
	Money Market Funds	AAA	£3m	£3m

7. The maximum value for any one investment transaction will be as shown in the table above.
8. The maximum limit with any one Local Authority is £5m and Debt Management Account Deposit Facility £10m.
9. Sterling denominated only.
10. Banks who originate from AAA sovereign rated country. The only exception to this is if the UK sovereign rating is reduced below AAA. If this was the case the Council would continue to invest in UK financial institutions.