



# Finance Working Party

## Minutes of a meeting held on Wednesday 30 March 2011 at 7.30 pm, Members' Room, East Northamptonshire House, Thrapston

Present:

Councillors:	Roger Glithero JP Glenvil Greenwood Smith Philip Hardcastle	Richard Lewis Steven North
Officers:	David Oliver (DO) Sharn Matthews (SM)	Rosanne Fleming (RF) Peter Cooper (PC) minutes

- |  | <b>Action</b> |
|--|---------------|
| <b>1.0 <u>MINUTES</u></b>  |               |
| 1.1 The minutes of the meeting held on 3 February 2011 were received and approved.   | <b>PC</b>     |
| <b>2.0 <u>APOLOGIES</u></b>  |               |
| 2.1 Councillor John Richardson MBE sent his apologies.   |               |
| <b>3.0 <u>DECLARATIONS OF INTEREST</u></b>   |               |
| 3.1 Councillors Roger Glithero and Richard Lewis declared personal interests for agenda item 5 (Treasury Management Strategy Statement and Investment Strategy) because they both held shares in Lloyds Bank. They remained in the meeting and took part in the discussion and voting on the item.   | <b>KO</b>     |
| <b>4.0 <u>ASSET MANAGEMENT – KINGS CLIFFE INDUSTRIAL UNITS</u></b>   |               |
| 4.1 Members were informed that three industrial units at Kings Cliffe owned by the council had been damaged by a fire in February 2011. The fire had started in unit 8 and then spread to adjoining units 7 and 9. The damaged units had been let to three separate companies.   |               |
| 4.2 The council's insurers had appointed a loss adjuster to assess the damage, investigate the reason for the fire and repair the units. A fire investigator appointed by the loss adjusters had visited the site and submitted a preliminary report, which stated that it could take up to six months to repair the units before they could be let again. |               |
| 4.3 It was estimated that there could be a loss of up to £4,638 rent until the damage was repaired and it was not known whether this amount could be claimed under the council's insurance. The tenant of unit 7 had moved into a vacant unit at Kings Cliffe and was paying rent for this unit.   |               |
| 4.4 The report was noted by the Working Party.   |               |

## 5.0 **TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY**

- 5.1 The Council's Treasury Management Strategy Statement (TMSS) and Investment Strategy from 2011/12 to 2013/14 was submitted for approval, which included the:
- Institutions the council would invest money with
  - Types of investment instruments that would be used
  - Limits placed on either the institution or the instrument used
  - Underlying economic environment that would affect the types of investment the council would use and the duration of these investments.
- 5.2 Members considered the council's position on the following matters under the TMSS:
- estimated treasury position
  - borrowing requirements and strategy
  - Annual Minimum Revenue Provision (MRP) Statement
  - investment policy and strategy
  - balanced budget requirement
  - reporting on the treasury outturn
  - Prudential Indicators.
- 5.3 The forecast for the UK interest rates provided by the council's treasury advisor and the effect it would have on the council's investments was also considered.
- 5.4 Members noted the specified and non-specified investments the council could use and that the authorised limit for external debt had been set at £5m until 2013/14.

### **RESOLVED TO RECOMMEND:**

- (1)** That the Treasury Management Strategy Statement and Investment Strategy from 2011/12 to 2013/14 be approved and the: - **RF**
- (i) council's annual Minimum Revenue Provision Statement in section 5 of the Treasury Management Strategy Statement be agreed;
  - (ii) types of investment the council can use be agreed; and
  - (iii) criteria for assessing the suitability of investment counterparties be agreed.
- (2)** That the Prudential Indicators in the Treasury Management Strategy Statement be recommended to full council for approval. **RF**  
*(Reason - compliance with the CIPFA Code of Practice on Treasury Management and the 2003 Prudential Code for Capital Finance in Local Authorities)*

## 6.0 **NEW HOMES BONUS**

- 6.1 The Working Party considered a report on the New Homes Bonus scheme introduced by the government in October 2010. The scheme was intended to encourage housing growth nationally and was linked to government plans for local communities to see the benefits of growth which also included the part

**Action**

local retention of business rates; the change to section 106 planning agreements on new developments; and the introduction of the Community Infrastructure Levy.

6.2 The scheme would be funded from the revenue support grant and the amount received by the Council would be based on the net increase in homes in the district over six years, calculated on figures from 12 months prior to the October before the relevant financial year.

6.3 It was agreed that the matter should be deferred and no decision be taken at this meeting and that a report be submitted to the Policy and Resources Committee on 4 July 2011.

**SM**

6.4 In the meantime, officers were asked to prepare and make suggestions for an information pack to assist parish and town councils and local community groups with any future bids under the scheme.

**SM**



## Finance Working Party - 30 March 2011

### Treasury Management Strategy Statement and Investment Strategy

#### Purpose of report

The purpose of this report is to gain member approval of the council's Treasury Management Strategy Statement and Investment Strategy (TMSS).

#### Attachment(s)

Treasury Management Strategy Statement and Investment Strategy

#### 1.0 Introduction

- 1.1 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.
- 1.2 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 three financial years.
- 1.3 The Treasury Management Strategy from 2011/12 to 2013/14 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.
- 1.4 The format and content of the TMSS is determined by the CIPFA Code of Practice on Treasury Management.

#### 2.0 Equality and diversity Implications

- 2.1 There are no equality and diversity implications in relation to the proposals

#### 3.0 Legal Implications

- 3.1 There are no legal implications in relation to the proposals

#### 4.0 Risk Management

- 4.1 Failure to comply with the CIPFA Code of Practice and the Prudential Code as outlined in section 1 would expose the council to adverse criticism by external auditors. Failure to develop and follow a robust and prudent strategy could also expose the council to significant financial loss if investments were placed in inappropriate institutions. The risks of loss are mitigated by the proposals in the strategy to address the matters identified above in section 3.

## **5.0 Financial Implications**

5.1 There are no significant financial implications from approving the proposals other than the income generated from investments in accordance with the strategy.

## **6.0 Corporate Outcomes**

6.1 The Strategy contributes to the council's corporate outcomes of:

- Good Value for Money
- Effective Management
- Good Reputation

## **7.0 Recommendation**

7.1 That the Treasury Management Strategy Statement (TMSS) and Investment Strategy from 2011/12 to 2013/14 be recommended to the Policy & Resources Committee for approval and specifically: -

- (i) the prudential Indicators in Appendix A of the TMSS be recommended for approval;
- (ii) the council's MRP Strategy in section 5 of the TMSS be agreed;
- (iii) the types of investment the council can use in Appendix C be approved; and
- (iv) the criteria for assessing the suitability of investment counterparties in Appendix D be agreed.

*(Reason - compliance with the CIPFA Code of Practice on Treasury Management and the 2003 Prudential Code for Capital Finance in Local Authorities)*

---

**Person Originating Report:** Rosanne Fleming - Finance Manager

**Date:** 10 March 2011

(Working Party Report Template Rev7)

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

**Contents**

1. **Background**
2. **The Treasury Position**
3. **Outlook for Interest Rates**
4. **Borrowing Requirement and Strategy**
5. **MRP Strategy**
6. **Investment Policy and Strategy**
7. **Balanced Budget Requirement**
8. **Reporting**

**Appendices**

- 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. **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 In response to the financial crisis in 2008 and the collapse of the Icelandic banks, CIPFA revised the TM Code and Guidance Notes as well as the Prudential Indicators in late November 2009. This strategy takes into account the impact of the Comprehensive Spending Review, 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 2011-12
- 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 31/3/2011 and for the following financial years is:

	31/3/2011 Estimate £m	% Return	31/3/2012 Estimate £m	31/3/2013 Estimate £m	31/3/2014 Estimate £m
<b>Investments:</b>					
Short-term deposits	15.0	3.30	12.5	11.5	11.0
Long-term deposits			0.0	0.0	0.0
<b>Total Investments</b>	15.0	3.30	12.5	11.5	11.0

- 2.2 The estimate for interest receipts in 2010/11 is £136k. The estimates for 2011/12 and subsequent years take into consideration the current portfolio and the outlook for interest rates (see 3.11). 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** – two main factors continue to affect the economy and therefore interest rates: the "Credit Crunch" and the recession. The economic outlook is tough for 2011 given the budget savings targets that the Government has set. Timings for increases to base rate will be crucial at a time when the economy recovery is weak and severe inflationary pressure is evident.
- 3.3 The Government responded to the credit crunch issues by injecting cash into the banking sector and in some instances this involved taking a controlling share of the banks themselves. These actions prevented the failure of the major UK based banks however globally some banks went bust.
- 3.4 As a significant amount of consumer spending relied on the availability of credit, the reluctance of banks to lend (or to lend at the previous advantageous rates) had an effect on the economy. Sales fell and throughout most of 2009 the economy was officially in recession (recession being two consecutive quarters of negative growth). Matters were compounded by the failure of a number of high profile UK companies and the laying off of significant numbers of employees from others. This only compounded the problems being faced by the economy. Again the Government has intervened with a number of measures intended to stimulate the economy. Interest rates fell to 0.5% and a programme of quantitative easing injected £200bn of cash into the banking system in an attempt to get it moving.
- 3.5 There was some recovery as the economy moved into small growth during 2010.



- 3.6. **Outlook** – Looking to the future, it is difficult to predict how quickly the major world economies will recover. Central Government indicate that there is optimism that there will be a moderate return to growth for the UK. However, there “is an identifiable risk of a double dip recession” i.e. whereby a period of recovery is shortly followed by another contraction in the economy.
- 3.7. A small dip in growth was recorded in December 2010, although this was attributed partly to bad weather experienced in December in the run up to Christmas.
- 3.8. The Monetary Policy Committee introduced Quantitative Easing in 2009 to relieve some of the pressure on banks, but has suggested a move away from further QE. It is more likely that bank base rates will increase at the latter stages of 2011.
- 3.9. The speed at which they rise will be dependent on the effectiveness of the economic policies implemented to date and the impact of the cuts following the CSR.
- 3.10. The investment rates that are available will differ slightly and these will start to anticipate rises to the base rate. As such, the level the Council can invest money at is expected to be higher than the forecast for the base rate.
- 3.11. 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;

<b>Year</b>	<b>Average Return %</b>
2010/11	1.35
2011/12	1.75
2012/13	2.75
2013/14	3.75

#### **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 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 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 In conjunction with advice from its treasury advisor, the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources identified in the Treasury Management Practices Schedules up to the available capacity within its CFR and Affordable Borrowing Limit (defined by CIPFA as the Authorised Limit).

## **5. Annual MRP Statement**

- 5.1 Guidance on Minimum Revenue Provision was issued by the Secretary of State in February 2008 under section 21(1A) of the Local Government Act 2003. This Guidance includes a recommendation that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full Council. The statement should indicate which of the four options set out in the Guidance are to be followed in the financial year.
- 5.2 The four options available are set out below:  
Option 1: Regulatory Method  
Option 2: CFR Method  
Option 3: Asset Life Method  
Option 4: Depreciation Method
- 5.3 The regulatory method and CFR method are based on a technical calculation which assesses, with reference to the balance sheet, the need to borrow. MRP is then calculated at 4% of this amount. The asset life and depreciation method allow you to calculate MRP based on the life of the asset you are borrowing against.
- 5.4 The Council's CFR at 31 March 2011 is estimated to be £Nil/Negative and therefore is no requirement to charge MRP in 2011/12.
- 5.5 In the future if a positive CFR is determined, then a more comprehensive report and a separate MRP strategy will be presented as part of the Council's Treasury Management arrangements.

## **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. In previous years one of the priorities of the Council's investment policy concerned the investment yield received. 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. The events of 2008 have shown that it is no longer possible to rely on credit ratings and as such the Council will also take on board the advice and guidance of its advisors, Arlingclose, when determining with whom to invest. 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 2011/12 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 fund. 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 and Head of Resources & OD, 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 long-dated investments (i.e. with maturities in excess of one year) and short-term investments, and reflect previous treasury management strategies and decisions. The mix of long and short-term 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 its business reserve accounts, Money Market Funds and term deposits.

6.4.3. 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 Lloyds Bank – fixed to 14<sup>th</sup> December 2011 at 2.20%
- £1m Santander – fixed to 21<sup>st</sup> June 2011 at 1.35%

#### **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 **Investments which constitute capital expenditure**

6.7.1. Investments meeting the definition of capital expenditure will only be used by this Council following consideration and approval by the Finance Sub-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 Head of Resources & OD will report to the Finance Working Party and on to the Policy & Resources Committee 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 the Finance Working Party and on to the Policy & Resources Committee at the first available meeting after the 30 September. Budget monitoring reports will reflect the anticipated return for the year from investments.

**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. Estimates of Capital Expenditure:**

- 2.1 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.

<b>Capital Expenditure</b>	2010-11	2010-11	2011-12	2012-13	2013-14
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
General Fund	3.035	2.299	3.059	1.557	0.890
<b>Total</b>	<b>3.035</b>	<b>2.299</b>	<b>3.059</b>	<b>1.557</b>	<b>0.890</b>

**3. Ratio of Financing Costs to Net Revenue Stream:**

- 3.1 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 out at paragraph 87 of the Prudential Code.

- 3.2 The ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	2010-11	2010-11	2011-12	2012-13	2013-14
	Approved %	Revised %	Estimate %	Estimate %	Estimate %
General Fund	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

*Note: this ratio can be negative for Councils in a net investment position and the wording of the above paragraph will need to be amended accordingly.*

**4. Capital Financing Requirement:**

- 4.1 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\*\*.

<b>Capital Financing Requirement</b>	31/3/10	31/3/10	31/3/11	31/3/12	31/3/13
	Approved	Revised	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
General Fund	-2.401	-2.401	-2.401	-2.401	-2.401
<b>Total CFR</b>	<b>-2.401</b>	<b>-2.401</b>	<b>-2.401</b>	<b>-2.401</b>	<b>-2.401</b>

\*\* 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.

*Note: The CFR can be a negative amount in situations where resources were required to be set aside under the 1989 Act regime that exceeded the underlying need to borrow.*

- 4.2. 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.
- 4.3. The Council's Chief Finance Officer confirms that this Council had no difficulty meeting this requirement in 2009-10 nor are difficulties envisaged for the current or future financial years.

## 5 Actual External Debt:

- 5.1 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.

<b>Actual External Debt as at 31/3/2011</b>	£m
Borrowing	0.000
Other Long-term Liabilities	0.000
<b>Total</b>	<b>0.000</b>

## 6. Incremental Impact of Capital Investment Decisions:

- 6.1 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.

<b>Incremental Impact of Capital Investment Decisions</b>	2010-11	2010-11	2011-12	2012-13	2013-14
	Approved £	Revised £	Estimate £	Estimate £	Estimate £
Increase in Band D Council Tax	4.93	1.93	3.01	2.04	1.17

## 7 **Authorised Limit and Operational Boundary for External Debt:**

7.1 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.

7.2 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.

7.3 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.

7.4 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).

<b>Authorised Limit for External Debt</b>	2010-11	2010-11	2011-12	2012-13	2013-14
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
Borrowing	4.800	4.800	4.800	4.800	4.800
Other Long-term Liabilities	0.200	0.200	0.200	0.200	0.200
<b>Total</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>

7.5 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.



<b>Operational Boundary for External Debt</b>	2010-11	2010-11	2011-12	2012-13	2013-14
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
Borrowing	4.800	4.800	4.800	4.800	4.800
Other Long-term Liabilities	0.200	0.200	0.200	0.200	0.200
<b>Total</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>

**8. Adoption of the CIPFA Treasury Management Code:**

- 8.1 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.

**9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:**

- 9.1 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.

	2010-11	2010-11	2011-12	2012-13	2013-14
	Approved %	Revised %	Estimate %	Estimate %	Estimate %
<b>Upper Limit for Fixed Interest Rate Exposure</b>	100.00	100.00	100.00	100.00	100.00
<b>Upper Limit for Variable Rate Exposure</b>	100.00	100.00	100.00	100.00	100.00

- 9.2 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.

**10 Maturity Structure of Fixed Rate borrowing:**

- 10.1 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.

- 10.2 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.

<b>Maturity structure of fixed rate borrowing</b>	<b>Lower Limit %</b>	<b>Upper Limit %</b>
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

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

- 11.1 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 2010/11 onwards also reflect the overall lower level of investments held by the Council and the need to maintain a sufficient balance for cashflow purposes.

<b>Upper Limit for total principal sums invested over 364 days</b>	2010-11	2010-11	2011-12	2012-13	2013-14
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
	<b>6.000</b>	<b>6.000</b>	<b>6.000</b>	<b>6.000</b>	<b>6.000</b>

**Arlingclose's Forecast for Interest Rates (December 2010)**

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
<b>Official Bank Rate</b>													
Upside risk			+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	1.00	1.50	2.00	2.50	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk				-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>1-yr LIBID</b>													
Upside risk			+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	1.25	1.25	1.50	1.75	2.25	3.00	3.50	4.00	4.00	4.00	4.00	4.00	4.00
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5-yr gilt</b>													
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	2.70	2.80	2.90	3.00	3.25	3.50	3.75	4.00	4.25	4.25	4.25	4.25	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
<b>10-yr gilt</b>													
Upside risk		+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50
Central case	3.75	3.75	4.00	4.00	4.25	4.25	4.50	4.50	4.75	5.00	5.00	5.00	5.00
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>20-yr gilt</b>													
Upside risk	+0.25	+0.50	+0.50	+0.50	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50
Central case	4.25	4.50	4.75	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>50-yr gilt</b>													
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	4.25	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.75	5.00	5.00	4.75	4.75
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- The recovery in growth is likely to be slow and uneven, more “square root” shaped than “V” shaped with a small rise and then a plateau.
- The initial reaction to the CSR is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

**Underlying assumptions:**

- The framework and targets announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt are as announced in June and focuses on how the cuts are to be distributed. The next fiscal milestone will be the Office of Budget Responsibility's assessment of the CSR's implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee's December meeting suggested a movement away from further Quantitative Easing. Despite Money Supply being weak and growth prospects remaining subdued the MPC have gravitated towards

increasing rate in the new year as global inflation continues to rise along with household inflation.

- Consumer Price Inflation is stubbornly above 3% and rose to 4% in January 2011 from 3.7% in December 2010. Two of the main factors that had an impact on the January data are the increase in the standard rate of Value Added Tax (VAT) to 20% and the continued increase in the price of crude oil.
- Unemployment remains near a 16 year high, at just over 2.5 Million, and is set to increase as the public sector shrinks. Meanwhile employment is growing but this is mainly due to part time work, leaving many with reduced income.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rates of growth, despite Q3's fairly strong performance.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

### 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?
<ul style="list-style-type: none"> <li>▪ Deposits with banks and building societies</li> <li>▪ Certificates of deposit with banks and building societies</li> </ul>	✓	<u>5 yrs</u>	<u>50%</u> in aggregate	No
Gilts and bonds <ul style="list-style-type: none"> <li>▪ Gilts</li> <li>▪ Bonds issued by multilateral development banks</li> <li>▪ Bonds issued by financial institutions guaranteed by the UK government</li> <li>▪ Sterling denominated bonds by non-UK sovereign governments</li> </ul>	Only after specific report to Finance Working Party and agreement by P&R committee	<u>10 years</u>	<u>50%</u> 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	<u>50%</u>	No
Bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	No	<u>10 years</u>	<u>£4m</u>	<b>Yes</b>
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	<u>£4m</u>	<b>Yes</b>

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.

**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.

Tier 1 Institutions

All Local Authorities and Public Bodies

UK Banks and UK Building Societies which have received a long term credit rating score of AA-/Aa3 or greater and a short term credit rating score of A-1+/F1+/P-1 or greater and have access to the Bank of England Credit Guarantee Scheme. Foreign Banks in specific countries which have received a long term credit rating score of AA-/Aa3 or greater and a short term credit rating score of A-1+/F1+/P-1 or greater.

Tier 2 Institutions

UK and Designated Foreign Banks and UK Building Societies which have received a long term credit rating score of "A+" or greater and a short term credit rating score of A-1/F1/P-1 or greater.

Money Market Funds (MMF)

Funds valued on a Constant Net Asset Value (CNAV) basis with an AAmmf, Aaa/MR1 or AAAM rating from Fitch, Moody's or Standard and Poor.

6. Investment limits for each tier of counterparty

	Max % of portfolio for each counterparty	Max % of portfolio for tier group
Tier 1 & 2	20	100
MMF	20	40

The limits for each counterparty include any group or subsidiary companies as well. The maximum of portfolio relates to the total of all institutions within any particular tier.

In addition to the above the following criteria should be applied for investments exceeding 1 year.

For Investments up to 5 years:

Tier 1 institutions (as defined above) which also have an Individual rating of B or better and a support/legal rating of 1 or 2, a maximum exposure of £5 million in total per institution.

For Investments up to 2 years:

As above, plus other institutions which have an AA- long term rating or better AND F1+ short term rating AND Individual rating of B AND support rating of 2 or better. I would suggest a maximum exposure (if not covered by above) of £4 million. Although this is not a great deal different to above, it does allow some 2nd tier institutions to be considered.

- 7) The maximum period for investments will be 5 years.
- 8) The maximum value for any one investment transaction will be £5 million.
- 9) The maximum level of investment with any one group of counterparties will be 25% of the total portfolio.
- 10) That a Country limit of 30% for Non-UK Banks of the portfolio be applied.