Epping Forest District Council
Treasury Management Strategy Statement
and Investment Strategy 2010/11 to 2012/13

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Appendices

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Treasury Management Strategy Statement
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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 determine the Treasury Management Strategy Statement (TMSS). This statement also incorporates the Investment Strategy as required under the Communities and Local Government (CLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year.

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. CLG has produced revisions to Investment Guidance which came into force from 1 April 2010.

1.2 CIPFA has defined Treasury Management as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. 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)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk

1.4 The strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix A), the Prudential Indicators (Appendix B) and the outlook for interest rates (Appendix C).

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

- A revised Treasury Management Strategy for 2010-11 which previously went to members in February (Borrowing - Section 4, Investments - Section 5)
- Prudential Indicators – Appendix B (NB - PI No. 6 - The Authorised Limit is a statutory limit)
- MRP Statement – Section 7
- Use of Specified and Non-Specified Investments – Appendices D & E

2. Balance Sheet and Treasury Position

2.1 The underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) together with Balances and Reserves are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31 Mar 10 Estimate £m	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m
CFR	-0.784	-0.784	-0.784	-0.784
Balances & Reserves	-28.391	-21.774	-19.104	-18.210
Net Balance Sheet Position	-29.175	-22.558	-19.888	-18.994

2.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

2.3 As the CFR represents the level of borrowing for capital purposes and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements. The revisions to the CLG's Investment Guidance recommend that the Strategy should state the authority's policies on investing money borrowed in advance of need. Currently the Council has a negative CFR and is able to finance its capital programme without borrowing. Therefore, the issue of borrowing in advance of need does not arise as no borrowing is currently being undertaken.

2.4 The move to International Financial Reporting Standards (IFRS) has implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's Operating leases against IFRS requirements may result in the related long term assets and liabilities being brought onto the Council's Balance Sheet. The estimates for the CFR and Long Term Liabilities will therefore need to take into account such items. This will influence the determination of the Council's Affordable Borrowing Limit and Operational Boundary.

2.5 The Department for Communities and Local Government has recently consulted on proposals to reform the council housing subsidy system. The proposed Self-financing option would require a one-off reallocation of housing debt. As the consultation period has only recently ended and the mechanism for debt transfer has not been determined, the estimates set out in this strategy do not take into account any potential debt transfer that may arise in future years.

2.6 The estimate for interest payments in 2010/11 is nil and for interest receipts is £0.897m.

3. Outlook for Interest Rates

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix C. Financial markets remain reasonably volatile as the structural changes necessary within economies and the banking system evolve. This volatility provides opportunities for active treasury management. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

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 B. The CFR represents the cumulative capital expenditure of the local authority that has not been financed. 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 (the underlying need to borrow) 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. However, the Council is debt free and expects to remain so for the foreseeable future.

5. Investment Policy and Strategy

Background

5.1 Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

Investment Policy

5.2 To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The CLG's revised Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

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

5.4 The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The revisions to the CLG's Investment Guidance state that a specified investment is one made with a body or scheme of "high credit quality". The Council will continue to maintain a counterparty list based on these criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraph 5.12. The CLG's revisions to its Guidance on local government investments recommend that the Investment Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed. Such decisions will be based on an assessment of the authority's Balance Sheet position with the limit being set in Prudential Indicator 12 - Upper Limit for total principal sums invested over 364 days.

5.5 The CLG's revisions to its Guidance on local government investments recommend that the strategy should state the authority's policies on investing money borrowed in advance of spending needs. As this authority is debt free and intends to remain so, no borrowing will be undertaken.

5.6 The Council's current level of investments is presented at Appendix A.

Investment Strategy

5.7 The global financial market storm in 2008 and 2009 has forced investors of public money to reappraise the question of risk versus yield. Income from investments is a key support in the Council's budget. The UK Bank Rate has been maintained at 0.5% since March 2009. **Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income**. The Council's strategy must however be geared towards this development whilst adhering to the principal objective of security of invested monies.

5.8 The Director of Finance & ICT, 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.

Investments managed in-house:

5.9 The Council's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates.

5.10 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office.

5.11 Currently the Council has restricted its investment activity to:

- The Debt Management Agency Deposit Facility (The rates of interest from the DMADF are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- Deposits with other local authorities
- Business reserve accounts and term deposits. *These have been primarily restricted to UK institutions that are rated at least A+ long term (or equivalent), and have access to the UK Government's 2008 Credit Guarantee Scheme (CGS)**
- Bonds issued by Multilateral Development Banks
  Please see Appendix D for a breakdown of current counterparties, instruments and limits used.

**Eligible Institutions could issue new guaranteed debt under the CGS until 28/02/2010, after which only existing guaranteed debt could be rolled over.*

5.12 Conditions in the financial sector have begun to show signs of improvement, albeit with substantial intervention by government authorities. In order to diversify the counterparty list, the use of comparable non-UK Banks for investments is now considered appropriate.

The sovereign states whose banks are to be included are Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US. These countries, and the Banks within them (see Appendix D), have been selected after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+)
- Credit Default Swaps
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution
- Share Price

Following the recent downgrades by S&P and Fitch to the sovereign rating of Spain, the two Spanish Banks that were on our lending list; BBVA and Banco Santander SA has been suspended.

The Council has also taken into account information on corporate developments and market sentiment towards the counterparties. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

We do remain in a heightened state of sensitivity to risk. Vigilance is key. This modest expansion of the counterparty list is an incremental step. In order to meet requirements of the revised CIPFA Treasury Management Code, the Council is focusing on a range of indicators (as stated above), not just credit ratings.

Limits for Specified Investments are set out in Appendix D.

5.13 To protect against a prolonged period of low interest rates, 1-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix E). The longer-term investments will be likely to include:

- **Supranational bonds (bonds issued by multilateral development banks):** The joint and individual pan-European government guarantees in place on these bonds provide security of the principal invested. Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

6. Balanced Budget Requirement

6.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

7. 2010/11 MRP Statement

The Annual MRP Statement is subject to Council approval and may therefore be reported separately to Council instead of being incorporated into the TMSS.

7.1 The Local Authorities (Capital Finance and Accounting) (England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

NB This does not preclude other prudent methods.

The 2009 SORP and IFRS may result in leases being brought on balance sheet. Where this is the case the CFR will increase, which will lead to an increase in the MRP charge to revenue. MRP for these items will match the annual principal repayment for the associated deferred liability.

7.3 MRP in 2010/11: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

7.4 The MRP Statement was approved by Council before the start of the 2010/11 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time. The current approved statement is as follows:

As the Council is currently debt-free and intends to remain so for the foreseeable future, there is no requirement to make a provision for external debt payment. If the Council identifies a need to borrow externally, the Council will draw up a minimum revenue policy in accordance with proper accounting practice, and will present this to members for approval.

7.5 The Council's CFR at 31st March 2010 is estimated to be £0.784m Negative and as such under Option 2 (the CFR Method) there is no requirement to charge MRP in 2010/11.

8. Reporting on the Treasury Outturn

The Director of Finance & ICT will report to the Finance & Performance Management Cabinet Committee on treasury management activity / performance as follows:

(a) A mid-year and year end review of treasury activity against the strategy approved for the year.
(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
(c) Audit & Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

9. Other items

Training

CIPFA's revised Code requires the Director of Finance & ICT to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

The CLG's revisions to its Guidance on local government investments recommend that the Investment Strategy should state what process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

Training for officers is identified through the annual Performance Development Review which is reviewed quarterly. Training needs and courses attended are discussed monthly at the treasury management meeting held between the Director of Finance & ICT and treasury staff.

Investment Consultants

The CLG's revisions to its Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and

- How the quality of any such service is controlled.

The Council appointed Arlingclose to act as Investment Consultants from 1 May 2010 for a period of three years. Regular meetings are held with Arlingclose to discuss the performance of the Council's investments and any opportunities arising in the market.

Publication

The CLG's revisions to its Guidance on local government investments recommend that the initial strategy and any revised strategy should, when approved, be made available to the public free of charge, in print or online.

This document will be published on the Council's website.

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APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31 Mar 10 Actual £m	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m
Total External Debt	**0.0**	**0.0**	**0.0**	**0.0**
Investments:				
Managed in-house				
- Deposits and monies on call and Money Market Funds	44.018	50.000	46.000	46.000
- Debt due from other Authorities	0.507	0.481	0.452	0.424
Total Investments	**44.525**	**50.481**	**46.452**	**46.424**
(Net Borrowing Position)/ Net Investment position	**44.525**	**50.481**	**46.452**	**46.424**

Although the Council is debt-free and expects to remain so for the foreseeable future, there is a reducing element of debt taken out on behalf of other local authorities. Epping Council has repaid the underlying external debt in full from its own resources; the authorities concerned are paying the Council their share of the debt plus interest

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APPENDIX B

PRUDENTIAL INDICATORS 2010/11 TO 2012/13

1 Background:

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, and issued a revised Code in November 2009.

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 a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Director of Finance & ICT reports that the authority had no difficulty meeting this requirement in 2009/10, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

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 and in the case of the HRA, housing rent levels.

No. 1	**Capital Expenditure**	**2009/10 Approved £m**	**2009/10 Revised £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
	Non-HRA	9.857	6.063	8.511	2.864	1.686
	HRA	6.840	8.143	6.956	7.011	6.317
	Total	**16.697**	**14.206**	**15.467**	**9.875**	**8.003**

3.2 Capital expenditure will be financed as follows:

Capital Financing	**2009/10 Approved £m**	**2009/10 Revised £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
Capital receipts	7.646	4.557	7.720	2.561	1.383
Grants	2.261	1.621	0.841	0.353	0.353
Major Repairs Allowance	5.265	6.503	5.143	5.511	5.567
Revenue contributions	1.525	1.525	1.763	1.450	0.700
Total	**16.697**	**14.206**	**15.467**	**9.875**	**8.003**

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 net of investment income. The definition of financing costs is set out at paragraph 87 of the Prudential Code.

4.2 The ratio is based on costs net of investment income. As the Council is debt-free, these are based on investment income and are therefore negative.

No. 2	Ratio of Financing Costs to Net Revenue Stream	2009/10 Approved %	2009/10 Revised %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
	Non-HRA	-6.04	-3.18	-2.52	-3.23	-6.27
	HRA	-6.26	-3.29	-2.60	-3.35	-6.49
	Total	**-12.30**	**-6.47**	**-5.12**	**-6.58**	**-12.76**

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 its 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**.

No. 3	Capital Financing Requirement	2009/10 Approved £m	2009/10 Revised £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
	Non-HRA	22.019	22.019	22.019	22.019	22.019
	HRA	-22.803	-22.803	-22.803	-22.803	-22.803
	Total CFR	**-0.784**	**-0.784**	**-0.784**	**-0.784**	**-0.784**

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

5.2 There is no change in the year–on-year for the CFR as we are not intending to borrow in the foreseeable future.

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.

No. 4	Actual External Debt as at 31/03/2009	£m
	Borrowing	0
	Other Long-term Liabilities	0
	Total	**0**

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 and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No. 5	Incremental Impact of Capital Investment Decisions	2009/10 Approved £	2010/11 Estimate £	2011/12 Estimate £	2012/13 Estimate £
	Increase in Band D Council Tax	-0.71	-0.42	0.68	1.77
	Increase in Average Weekly Housing Rents	0.04	0.11	4.85	5.96

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).

No. 6	Authorised Limit for External Debt	2009/10 Approved £m	2009/10 Revised £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
	Borrowing	5.0	5.0	5.0	5.0	5.0
	Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
	Total	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**

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 but without the additional headroom included within the Authorised Limit.

No. 7	Operational Boundary for External Debt	2009/10 Approved £m	2009/10 Revised £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
	Borrowing	0.5	0.5	0.5	0.5	0.5
	Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
	Total	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**

9. Adoption of the CIPFA Treasury Management Code:

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

No. 8	Adoption of the CIPFA Code of Practice in Treasury Management
	The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 April 2002.

The Council is incorporating the changes from 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, (i.e. fixed rate debt net of fixed rate investments.

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

		2009/10 Approved %	2009/10 Revised %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
No. 9	**Upper Limit for Fixed Interest Rate Exposure**	100	100	100	100	100
No. 10	**Upper Limit for Variable Interest Rate Exposure**	50	50	50	50	50

10.3 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.

No. 11	**Maturity structure of fixed rate borrowing**	**Lower Limit %**	**Upper Limit %**
	under 12 months	0	100
	12 months and within 24 months	0	0
	24 months and within 5 years	0	0
	5 years and above	0	0

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.

No. 12	**Upper Limit for total principal sums invested over 364 days**	**2009/10 Approved £m**	**2009/10 Revised £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
		30.0	**30.0**	**30.0**	**30.0**	**30.0**

APPENDIX C

Arlingclose's Economic and Interest Rate Forecast

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Official Bank Rate											
Upside risk		0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**2.00**	**2.50**	**2.75**	**3.00**
Downside risk				-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
1-yr LIBID											
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.50**	**1.60**	**1.75**	**2.00**	**2.25**	**2.50**	**2.75**	**3.00**	**3.25**	**3.50**	**3.50**
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt											
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**2.50**	**2.50**	**2.75**	**3.00**	**3.25**	**3.50**	**3.75**	**4.00**	**4.00**	**4.00**	**4.00**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	**3.50**	**3.75**	**4.00**	**4.00**	**4.25**	**4.25**	**4.50**	**4.75**	**4.75**	**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
20-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
Central case	**4.50**	**4.50**	**4.75**	**4.75**	**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
50-yr gilt											
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**4.25**	**4.50**	**4.50**	**4.50**	**4.75**	**4.75**	**4.50**	**4.50**	**4.50**	**4.50**	**4.50**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- The recovery in growth is likely to be slow and uneven, more "Square root" than "V" shaped. The Bank of England will stick to its lower-for-longer stance on policy rates.
- Gilts will remain volatile, more so in the election's aftermath.
- The path of base rates reflects the fragile state of the recovering economy and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- The potential for downgrades to UK sovereign ratings has receded, but the negative outlook (S&P) will remain for now.

Underlying assumptions:

- The Bank's May Inflation Report forecasts a slow recovery with an uncertain outlook for corporate and consumer spending. UK Q1 growth (GDP) has been confirmed at 0.3%. The IMF has revised the 2010 growth forecast down 0.1% to 1.2%, while its 2011 forecast was cut from 2.5% to 2.1%.. However, the Office for Budget Responsibility has forecasted 2011 growth at 2.3%
- Looming bank regulation, including liquidity and capital requirements, may curb bank lending activity. But FSA regulations should force banks to buy more Gilts which could help slow the rise in yields in 2010/11, a QE by proxy.
- The employment outlook remains uncertain, as unemployment is near a 16 year high. Pay freezes, short hours, job cuts and a migration toward part time employment will continue through 2010 keeping the headline unemployment number down, but

aggregate earnings too. Public Sector rationalisation may add to these figures if private sector job creation can not keep pace.

- Increases in the savings ratio, reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rate of growth.
- CPI shows that Inflation has edged down to at 3.2%, much of this figure is due to the effects of indirect taxation(VAT). Without indirect taxation (CPI-Y), inflation is 1.5%.
- Initial cuts in public spending and tax increases to address the budget deficit have been announced in the emergency budget. Longer term plans will be set out in the October CSR.
- Sterling recovery against the dollar. The European sovereign debt crisis has led to a rally against the Euro. This will affect the competitiveness of UK exports to trading partners who are under strain.

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APPENDIX D

Specified Investments identified for use by the Council

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

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

"Specified" Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV)
- 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.

** 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/long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings:

Long-term minimum: A1 (Moody's) or A+ (S&P) or A+(Fitch)
Short-term minimum: P-1 (Moody's) or A-1 (S&P) or F1 (Fitch).

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

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New specified investments will be made within the following limits:

Instrument	Country	Counterparty	Maximum Limit of Investments £m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Santander UK Plc	10.0*
Term Deposits/Call Accounts	UK	Bank of Scotland/Lloyds TSB	10.0
Term Deposits/Call Accounts	UK	Barclays Bank Plc	10.0
Term Deposits/Call Accounts	UK	Clydesdale Bank	10.0
Term Deposits/Call Accounts	UK	HSBC Bank Plc	10.0
Term Deposits/Call Accounts	UK	Nationwide Building Society	10.0
Term Deposits/Call Accounts	UK	Royal Bank of Scotland/National Westminster Bank	10.0
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	10.0
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	10.0
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd	10.0
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	10.0
Term Deposits/Call Accounts	Canada	Bank of Montreal	10.0
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	10.0
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	10.0
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	10.0
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	10.0
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	10.0
Term Deposits/Call Accounts	France	BNP Paribas	10.0
Term Deposits/Call Accounts	France	Calyon (Credit Agricole Group)	10.0
Term Deposits/Call Accounts	France	Credit Agricole SA	10.0

Term Deposits/Call Accounts	Germany	Deutsche Bank AG	10.0
Term Deposits/Call Accounts	Netherlands	Rabobank	10.0
~~Term Deposits/Call Accounts~~	~~Spain~~	~~Banco Bilbao Vizcaya Argentaria~~	~~10.0~~**
~~Term Deposits/Call Accounts~~	~~Spain~~	~~Banco Santander SA~~	~~10.0~~**
Term Deposits/Call Accounts	Switzerland	Credit Suisse	10.0
Term Deposits/Call Accounts	US	JP Morgan	10.0
Gilts	UK	DMO	No limit
Bonds	EU	European Investment Bank/Council of Europe	10.0
AAA rated Money Market Funds	UK/Ireland/ Luxembourg	CNAV MMFs	10.0
Other MMFs and CIS	UK	Collective Investment Schemes	10.0

NB
Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

The list above is the current counterparty approved by Arlingclose. This list will change from time to time to reflect the latest information in the markets.

Non-UK Banks - these are restricted to a maximum exposure of £10m per country. This means that effectively all the authority's investments can be made with non-UK institutions should you wish, but it limits the risk of over-exposure to any one country.

* Please note that deposits with Santander UK plc are currently restricted to 1 month.
** Please note that Banco Santander SA and Banco Bilbao Vizcaya Argentaria are currently suspended from our lending list, in line with Arlingclose's advice.

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APPENDIX E

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	Maximum Amount	Capital expenditure?
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	✓ ✓	5 yrs	£20m	No
Gilts and bonds ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government, e.g. GEFCO ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	10 years	£10m	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	✓ (on advice from treasury advisor)	These funds do not have a defined maturity date	£10m	No

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.

NB Where the option of investing in Banks for periods in excess of 1 year, we advise the following minimum ratings:

	Long-term	**Short-term**
Fitch	AA- (AA minus)	F1+
Moody's	Aa3	P-1
S&P	AA- (AA minus)	A-1+