Report to: **Cabinet**

Subject: **Integrated Treasury Management Strategy Statement 2011/12, Annual Investment Strategy 2011/12 and Minimum Revenue Provision Policy Statement 2011/12**

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1. PURPOSE OF REPORT

To present for Members' approval, the Council's integrated Treasury Management Strategy Statement (TMSS), Annual Investment Strategy (AIS), and Minimum Revenue Provision Policy (MRPP) for 2011/12.

2. BACKGROUND

2.1 Definition

Treasury management is defined as "the management of the local authority'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. "

2.2 Statutory Requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 4 of this report). This guidance sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department of Communities and Local Government (CLG) has issued revised investment guidance and this came into effect on 1 April 2010. There

were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

2.3 CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 3 March 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy, for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For Gedling, this is the audit committee.

2.4 Treasury Management Strategy for 2011/12

The suggested strategy for 2011/12 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector. The strategy includes:

- Treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators (referred by Cabinet 13 January to Full Council 23 February for approval)
- Borrowing Requirement
- Current Treasury Portfolio Position
- Prospects for interest rates
- Borrowing strategy
- Internal and external borrowing
- Policy on borrowing in advance of need
- Debt rescheduling

- Investment strategy
- Creditworthiness policy
- Policy on use of external service providers
- MRP strategy

2.5 Balanced Budget Requirement

It is a statutory requirement for the Council to produce a balanced budget.

Section 32 of the Local Government Finance Act 1992 places a duty on a local authority to calculate its “budget requirement” for each financial year, and this includes the revenue costs which result from the capital investment decisions of the authority. These include:

- any increased interest charges, and provision for loan repayments, caused by increased borrowing to finance additional capital expenditure.
- any additional running costs associated with new capital projects.

Section 33 of the Act requires the local authority to set a council tax sufficient to meet its expenditure, taking into account other sources of income such as government grants and non domestic rates.

Thus, any additional capital expenditure must be limited to that which is affordable within the projected income of the Council for the foreseeable future.

It should be noted that a significant scheme included in the proposed capital programme is a replacement leisure facility, which will facilitate the wider development of Arnold Town Centre. The initial business case for a replacement leisure facility has been assessed as affordable, and is mainly funded from grant, sale of assets, existing running costs, and savings in the longer term investment that would be required in existing facilities if they continued unchanged. The impact of this scheme in included within the Prudential Indicators at paragraph 3.4 below.

3. TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) 2011/12

3.1 Treasury Limits for 2011/12 to 2013/14

It is a statutory duty under The Local Government Act 2003 (the Act) and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the “Authorised Limit” represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is “acceptable”.

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and for the two successive financial years. Details of the Authorised Limit can be found in Appendix 1 to this report.

3.2 Prudential and Treasury Indicators 2011/12 to 2013/14

Appendix 1 details the Prudential and Treasury Indicators required for the purpose of setting an integrated Treasury Management Strategy. Cabinet considered these indicators on 13 January 2011, and referred them for approval by Full Council on 23 February 2011.

“Prudential” indicators are based on estimates of expected outcomes:

- Ratio of financing costs to net revenue stream
- Capital Expenditure
- Capital Financing Requirement
- Net Borrowing and CFR
- Incremental impact of capital investment decisions

“Treasury” indicators are based on limits, beyond which activities should not pass without management action:

- Authorised Limit for External Debt (the “affordable borrowing limit”)
- Operational Boundary for External Debt
- Upper limit for fixed interest rate exposure
- Upper limit for variable interest rate exposure
- Upper limits fir the maturity structure of borrowing
- Upper limits for principal sums invested for periods over 364 days

The Council is also required to indicate whether it has adopted the CIPFA Code of Practice on Treasury Management. Members are advised that the original 2001 Code was adopted and followed by the Council until it was revised by the 2009 Code. Cabinet subsequently considered and noted the 2009 Code on 18 February 2010, and the Code was formally approved by the Full Council on 3 March 2010.

3.3 Borrowing Requirement

The Council’s estimated borrowing requirement to finance its capital programme for the current year, 2010/11, and its anticipated requirements for the years 2011/12 to 2013/14 are detailed in the table below.

Due to favourable interest rates, some borrowing in advance of cash flow need (but within the Capital Financing Requirement Prudential Indicator) has already been undertaken. Accordingly, the borrowing **requirement** below may differ to the actual borrowing **undertaken** during each year.

Future Borrowing Requirement:	10/11 £m	11/12 £m	12/13 £m	13/14 £m
Borrowing required for Capital Programme	1.687	1.009	7.071	3.402
Alternative Financing Arrangements	-	-	-	-
Total	**1.687**	**1.009**	**7.071**	**3.402**

The capital programme includes a replacement leisure facility, which will facilitate the wider development of Arnold Town Centre, and this is the reason for the significant increase in the borrowing requirement in 2012/13 and 2013/14.

3.4 Current Treasury Portfolio Position

The Council's treasury portfolio position at 4 February 2011 is detailed below:

	£000s	Av Rate %
Fixed Rate Borrowing - PWLB	**9,812**	3.62
Total Investments	**(12,650)**	1.27
Net Borrowing / (Investment)	**(2,838)**	

3.5 Prospects for Interest Rates

The Council has appointed Sector as its treasury advisors, and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following is a summary of the Sector central view:

- 2010/11 0.50%
- 2011/12 1.00%
- 2012/13 2.25%
- 2013/14 3.25%

There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. A detailed view of the current economic background is contained within Appendix 3 to this report.

Members' attention is drawn to the fact that all Sector's more detailed forecasts at Appendix 2 follow the convention used by HM Treasury in its budget reports and statistics, in as much as years are always calendar years, and not local authority financial years. Quarter 1 (Q1) therefore refers to the January to March quarter, not the first quarter of a local authority financial year, April to June. Accordingly, Q2 refers to April-June, Q3 to July-September, and Q4 to October-December.

3.6 Borrowing Strategy

The Sector forecast for PWLB new borrowing rates are as follows:

	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Mar 13	Mar 14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5 yr PWLB	3.30%	3.30%	3.40%	3.50%	3.60%	4.30%	5.00%
10 yr PWLB	4.40%	4.40%	4.40%	4.50%	4.70%	5.10%	5.40%
25 yr PWLB	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%
50 yr PWLB	5.20%	5.30%	5.20%	5.30%	5.30%	5.50%	5.70%

More detailed forecasts may be found at Appendix 2.

Sector recommend that the Council's borrowing strategy gives consideration to new borrowing in the following order of priority:

1. The cheapest borrowing will be internal borrowing, ie. The running down of cash balances and foregoing small amounts of interest, earned at historically low rates. However, in view of the overall forecast for long-term borrowing rates to rise over the next few years, consideration will also be given to weighing the short term advantage of such internal borrowing against potential long term costs, ie. if opportunity is missed for taking loans at long term rates which will be even higher in future years.
2. Temporary borrowing from the market, or from other local authorities.
3. PWLB variable rate loans for up to 10 years.
4. Long-term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available), and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
5. PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.
6. Consideration will be given to PWLB borrowing by annuity and EIP loans, as well as maturity loans.

Sensitivity of the forecast:

In normal circumstances, the main sensitivities of the forecast are likely to be the two scenarios noted below. Officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-

appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

3.7 External v Internal Borrowing

Paragraph 43 of the revised Prudential Code requires each authority to explain its policy on gross and net debt, if there is a significant difference between them.

Comparison of gross and net debt positions at year-end	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Proj O/T	Est	Est	Est
	£000s	£000s	£000s	£000s	£000s
Actual external debt (gross)	6,812	9,812	9,812	16,387	19,789
Net Debt	3,307	4,812	6,812	13,887	17,789
Difference (ie. investments)	3,505	5,000	3,000	2,500	2,000

At the date of writing (4 February 2011), the Council currently has a difference between gross debt and net debt (after deducting investments), of £2.838m, ie. the position is one of a "net investment". This difference is expected to rise to around £5m by 31 March 2011.

The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures regarding creditworthiness taken during the year have substantially reduced the level of credit-risk, therefore another factor which will be carefully considered is the <u>difference</u> between borrowing rates and investment rates, to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

The next financial year is expected to be one with an abnormally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

However, short term savings by avoiding new long term external borrowing in 2011/12 will also be weighed against the potential for incurring additional long term costs by delaying unavoidable new external borrowing until later years, when PWLB long-term rates are forecast to be significantly <u>higher</u>.

The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower "repayment" rates than "new borrowing" rates in November 2007, which has now been compounded since 20 October 2010 by a further widening of the difference between new borrowing and repayment rates, has

meant that large premiums would be incurred by such action, and such levels of premiums cannot be justified on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Against this background caution will be adopted with the 2011/12 treasury operations. The Head of Corporate Services will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

3.8 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely to profit from the investment of the extra sums borrowed, since this is illegal. Any decision to borrow in advance of need will be considered carefully to ensure value for money can be demonstrated, and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need, the Council will:

- Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans of and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the advantages and disadvantages of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods over which to fund, and the repayment profiles to use.

3.9 Debt Rescheduling

The introduction by PWLB of a new rates structure in November 2007, which introduced a “spread” between the rates applied to <u>new</u> borrowing and those for the “repayment” of debt, has been compounded since 20 October 2010 by a further widening, and has meant that PWLB to PWLB debt restructuring is now much less attractive than before these events. In particular, consideration must now be given to the large premiums that would be incurred by prematurely repaying existing PWLB loans, and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB financing. However, some interest savings may still be achievable through the use of LOBOs (Lenders Option Borrowers Option) loans and other market loans in rescheduling exercises.

As short-term borrowing rates will be considerably cheaper than longer-term rates, there may be potential for some residual opportunities to generate savings by switching from long-term to short-term debt, however, these

savings will need to be considered in the light of the premiums incurred, their short nature, and the likely cost of refinancing them once they mature, compared to the current rates on longer term debt in the existing debt portfolio. Any such rescheduling is likely to cause a flattening of the Council's maturity profile, as in recent years there has been a skew towards longer dated PWLB.

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cashflow savings, at minimum risk
- Helping to fulfil the borrowing strategy outlined in this report
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility)
- All rescheduling will be reported to Cabinet at the meeting following its action.

4. ANNUAL INVESTMENT STRATEGY (AIS) 2011/12

4.1 Investment Policy

The Council will have regard to the CLG's guidance on Local Government Investments ("the guidance") issued in March 2004, and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

All investments will be made in sterling, and the Council's general policy objective is the prudent investment of its treasury balances. The Council's investment priorities are:

- The security of capital
- The liquidity of its investments

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low, in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return remains unlawful, and the Council will not engage in such activity.

Investment instruments identified for use in the financial year are listed at Appendix 4 under "Specified" and "Non-Specified" categories. An investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and the payment or repayment is only payable in sterling.
- The investment is not a long-term investment, ie. less than one year.
- The making of the investment is not defined as capital expenditure.

- The investment is made with a body of high credit quality, or with the UK government, a local authority or a parish council.

Only minimal reference need be given to specified investments in the Annual Investment Strategy, and they will generally be used for cash-flow management.

Non-specified investments are all those not meeting the criteria for specified investments. They may even be made with the same counterparty as specified investments, being non-specified only by way of the maturity period being over one year. Alternatively they may be more complex instruments, or those offering slightly higher risk or lower liquidity. If used at all, non specified investments will tend only to be used for the longer-term investment of core-balances. The Council currently has one non specified investment in its portfolio, being for a period in excess of one year.

Appendix 4 also sets out:

- The advantages and associated risk of investments under the non-specified category

- The upper limit to be invested in each non-specified category

- Which instruments would best be used after consultation with the Council's treasury advisers.

Counterparty limits will be as set out in the Council's Treasury Management Practices (Schedules).

4.2 Creditworthiness Policy

This Council uses the creditworthiness service provided by Sector. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as "overlays":

- Credit watches and credit outlooks from credit rating agencies

- "Credit Default Swap" (CDS) spreads to give early warning of likely changes in credit ratings

- Sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its

investments, and that it is a service which the it would not be able to replicate using its in-house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:

Yellow	5 years (AAA rated government debt only)
Purple	2 years
Blue	1 yr (only applies to nationalised or semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	3 months
No Colour	not to be used

The Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored weekly, however the Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

If a downgrade results in a counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap (CDS) against the "iTraxx" benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution, or removal from the Councils lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

4.3 Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The revised list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to or deducted from by officers should ratings change in accordance with this policy. The list reflects those countries that **may** be used - investments are generally only made with UK

registered institutions. Members will note that Santander (which took over Abbey and Alliance & Leicester) is a Spanish bank, however it is widely accepted that should it face difficulties it would be resolved by the British rather than the Spanish government. Accordingly, Santander remains on the approved counterparty list.

4.4 Investments defined as capital expenditure

The acquisition of share capital or loan capital in a body corporate is defined as capital expenditure under regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources, and will be classified as non-specified investments. Investments in “money market funds”, which are collective investment schemes, and bonds issued by “multilateral development banks”, both defined in SI 2004 No 534, will not be treated as capital expenditure. A loan or grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

4.5 Provision for credit-related loss

If any of the Council’s investments appear to be at risk of loss due to default, ie this is a credit-related loss and not one resulting from a fall in price due to movements in interest rates, the Council will make revenue provision of an appropriate amount.

4.6 Investment Strategy

The Council’s in-house managed funds are mainly cashflow derived, however, there has for some time been a core balance available for investment over a 2-3 year period if appropriate. In addition, borrowing undertaken in advance of need at favourable interest rates has recently added to the funds available.

Investments will be made with careful reference to any remaining core balance, to cashflow requirements, and to the outlook for short-term interest rates (ie. for investments up to 12 months).

As of 3 February 2011, the Council held one investment spanning the whole of the forthcoming financial year 2011/12, ie. it matures beyond 31 March 2012.

4.7 Interest Rate Outlook

Bank Rate has been unchanged at 0.5% since March 2009. It is forecast that Bank Rate will start rising in Q4 2011 and then rise steadily from there on. Sector’s forecast for Bank Rate is as follow:

End of 2010/11	0.50%
End of 2011/12	1.00%
End of 2012/13	2.25%
End of 2013/14	3.25%

There is downside risk to these forecasts if economic growth is weaker than currently expected. There is also a risk that the MPC could decide to start raising Bank Rate in Q3 2011 if it feels it needs to defend its credibility in containing inflation and the inflation expectations of the public.

The Council will avoid locking into longer-term deals whilst investment rates are down at historically low levels, unless exceptionally attractive rates are available with counterparties of particularly high creditworthiness, which make longer-term deals worthwhile.

For its cashflow generated balances, the Council will seek to use its corporate deposit accounts and short-dated fixed term deposits (1-3 months) in order to benefit from the compounding of interest. For 2011/12, Sector recommends that the Council should budget for an investment return of 0.7% on investments placed during the year.

4.8 End of Year Investment Report

At the end of the year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.9 Policy on the use of external service providers

The Council uses Sector as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times, and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

4.10 Scheme of Delegation

Full Council is responsible for:

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of the annual strategy (TMSS)

Cabinet is responsible for:

- Approval of/amendments to the Council’s adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations

- Approving the selection of external service providers and agreeing terms of appointment.

Audit Committee is responsible for:

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

4.11 Role of the section 151 Officer

The role of the S151 (responsible) officer includes the following:

- recommending clauses, treasury management policy/practices for approval, reviewing these regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

5. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2011/12

A local authority is required to charge a Minimum Revenue Provision (MRP) to its revenue accounts in each financial year, to provide for the repayment of borrowing undertaken in respect of its capital expenditure, which is generally expenditure on assets which have a life expectancy of more than one year, for example, buildings, vehicles, machinery etc.

CLG guidance on MRP lays down that "a local authority shall determine for the current financial year an amount of Minimum Revenue Provision that it considers to be prudent." The broad aim of a "prudent" provision is to ensure that borrowing is repaid over a period that reflects the useful lives of assets.

The guidance also requires that a statement of the Council's policy for its MRP should be submitted to the full Council for approval, before the start of the financial year to which the MRP will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the annual MRP than was possible under the previous statutory requirement. There is no intention in the guidance to be prescriptive, the overriding recommendation

being that the MRP should be “prudent”. The guidance does not, however, define “prudent”, instead making recommendations on the interpretation of the term, and offering four main options, as detailed below.

- **Option 1 – Regulatory Method**

  MRP is equal to the amount determined under the former regulations of the 2003 Act, as if they had not been revoked by the 2008 Act. This method must continue for all capital expenditure incurred in years before the start of the new MRP arrangements. It may also be used for new Government-supported borrowing supported under the grant system, but not for new prudential (self-financed) borrowing.

- **Option 2 – Capital Financing Requirement Method**

  This method is based on 4% of the Capital Financing Requirement (CFR). The CFR is a measure of the authority’s outstanding debt liability and is balance sheet derived. The method may also be used for new borrowing supported under the grant system, but not for new prudential borrowing.

- **Option 3 – Asset Life Method**

  This method may be applied to new capital expenditure financed by both Government-supported borrowing and prudential borrowing. It is intended that MRP should be spread over the useful lives of the assets created. Advantages of this method are that borrowing for longer life assets, eg. freehold land, can be spread over much longer periods than would arise under Options 1 or 2, and that no MRP is made until the financial year in which expenditure on the asset is fully incurred or, in the case of a new asset, it comes into service. This “MRP holiday” is not available under Options 1 or 2.

  Option 3 should be applied where an authority incurs expenditure which is financed by borrowing, and is treated as capital expenditure by virtue of a direction under section (2)(b) of the 2003 Act, or regulation 25(1) of the 2003 regulations, eg, grants towards capital expenditure by third parties. The MRP guidance indicates the number of years of “useful life” to be used for each type of expenditure in this category.

  MRP under Option 3 may be calculated using either an equal instalment method, or an annuity method, whereby annual payments gradually increase during the life of the asset.

- **Option 4 – Depreciation Method**

  This method may be applied to new capital expenditure financed by both Government-supported borrowing and prudential borrowing. MRP charges are linked to the useful life of each type of asset using the standard accounting rules for depreciation, but with some exceptions, ie. it is a more complex approach than Option 3.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent MRP, having had regard to the guidance and its own circumstances.

MRP Policy Statement 2011/12

The following Statement is proposed for 2011/12:

1. The Council implemented the new MRP guidance in 2009/10, and now assesses MRP 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

2. Option 1, the regulatory method, will be used for calculating MRP in respect of all capital expenditure incurred up to and including 31 March 2008.

3. Option 3, the Asset Life Method, will be used for calculating MRP in respect of all capital expenditure incurred on and after 1 April 2008. An equal instalment approach will be adopted.

4. The Head of Corporate Services will determine estimated asset lives. Where different types of expenditure are involved, it will be grouped together in a manner which best reflects the nature of the main component of expenditure. It will only be divided up in cases where there are two or more major components, with significantly different asset lives.

5. When the authority undertakes self-financed borrowing under the Prudential Code to acquire an asset and makes MRP based on the asset life method, there is still a rise in CFR, which is in turn the basis of the MRP calculation under the old regulatory method, potentially leading to a double count. Accordingly the new arrangements provide for the use of an ”adjusted version of the CFR”, solely for the purpose of calculating MRP on expenditure falling under the old regulatory method (see paragraph 1 above).

6. In view of the economic climate and significant budgetary pressures, the Council will not provide for an additional voluntary contribution to MRP in 2011/12.

MRP Estimate 2011/12

Based on the above policy, the total MRP charges for 2011/12 are currently calculated as £444,600 as detailed below, and this sum has been included in the Council’s 2011/12 budget proposals. The exact amount of MRP will be subject to change should capital financing decisions alter during the year.

	£
Option 1 – Regulatory Method	316,200
Option 3 – Asset Life Method	128,400
Total MRP	**444,600**

6. RECOMMENDATIONS

It is recommended that:

Members note the Integrated Treasury Management Strategy Statement 2011/12, Annual Investment Strategy 2011/12 and Minimum Revenue Policy Statement 2011/12 as detailed in the report, and refer it to Full Council for approval as required by the regulations.

Appendix 1 Prudential and Treasury Indicators
Appendix 2 Interest rate forecasts
Appendix 3 Economic background
Appendix 4 Specified and non-specified investments
Appendix 5 Approved countries for Investment

APPENDIX 1

Prudential and Treasury Indicators for 2011/12 to 2013/14

Prudential Indicators

	2009/10 Actual	2010/11 Original Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
a) Ratio of Financing Costs to Net Revenue Stream	3.88%	4.76%	5.65%	6.64%	10.55%
b) Capital Expenditure	£2,281,704	£3,686,000	£2,676,900	£7,532,000	£5,085,000
c) Capital Financing Requirement (CFR)	£9,283,109	£11,330,534	£11,303,162	£17,846,939	£20,484,329
d) Net Borrowing and CFR		£13,386,833	£20,484,329	£20,673,877	£20,735,809
e) Incremental impact of new 2010/11 capital investment decisions			£0.41	£3.25	£3.24

Treasury Management Indicators

	2009/10 Actual	2010/11 Original Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
a) Authorised Limit for External Debt:					
Borrowing		£15,000,000	£22,500,000	£22,700,000	£22,700,000
Other Long Term Liabilities		£1,500,000	£1,500,000	£1,500,000	£1,500,000
Total Authorised Limit		**£16,500,000**	**£24,000,000**	**£24,200,000**	**£24,200,000**
b) Operational Boundary for External Debt:					
Borrowing		£14,000,000	£21,500,000	£21,700,000	£21,700,000
Other Long Term Liabilities		£1,500,000	£1,500,000	£1,500,000	£1,500,000
Total Operational Boundary		**£15,500,000**	**£23,000,000**	**£23,200,000**	**£23,200,000**
c) Upper limit for fixed interest exposure (Max o/s net Borrowing)		£13,500,000	£20,500,000	£20,700,000	£20,700,000
Local indicator-Investment only		100%	100%	100%	100%
Local indicator-Borrowing only		100%	100%	100%	100%
d) Upper limit for variable interest exposure (Max o/s net Borrowing)		£2,000,000	£2,000,000	£2,000,000	£2,000,000
Local indicator-Investment only		100%	100%	100%	100%
Local indicator-Borrowing only		50%	50%	50%	50%
e) Upper limits for maturity structure of outstanding borrowing during 2011/12 (Lower limit 0% in all cases)					
Under 1 year			20%		
1-2 years			25%		
2-5 years			40%		
5-10 years			50%		
Over 10 years			100%		
f) Upper limits for principal sums invested for periods **over** 364 days					
Maturing beyond 31 March 2012			£5,000,000		
Maturing beyond 31 March 2013			£3,000,000		
Maturing beyond 31 March 2014					

APPENDIX 2

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

(1) Individual Forecasts

Sector interest rate forecast – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%	3.25%	3.50%	3.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%	3.20%	3.50%	3.80%	4.00%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%	3.40%	3.65%	4.00%	4.20%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

Capital Economics: interest rate forecast – 11.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%
5yr PWLB rate	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%					
10yr PWLB rate	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%					
25yr PWLB rate	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%					
50yr PWLB rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%					

UBS interest rate forecast (for quarter ends) – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Bank rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
10yr PWLB rate	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
25yr PWLB rate	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
50yr PWLB rate	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

(2) Survey of Economic Forecasts

HM Treasury December 2010

The current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2011		ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	2.00%		0.90%	1.60%	2.40%	3.00%
Highest	0.50%	0.50%		2.10%	3.10%	3.60%	4.50%
Lowest	0.50%	0.80%		0.50%	0.50%	0.60%	1.20%

APPENDIX 3

ECONOMIC BACKGROUND

Global Economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland, is currently in progress as at November 2011.

The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.

UK Economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a negative trend during the summer and autumn of 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.

Economic Growth – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. The first estimate of +0.8% for quarter 3 was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which are likely to be the start of a new trend for some years ahead of rising unemployment.

Inflation and Bank Rate – CPI has remained high during 2010. It peaked at 3.7% in April and has gradually declined to 3.1% in September (RPI 4.6%). Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years after another rise back up to about 3.5% by the end of 2010.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectation that there could be a second round of quantitative easing in late 2010 or early 2011, to help support economic growth, have evaporated after the surprises of the Q3 GDP figure of +0.8% and the November Inflation Report revising the forecast for short term inflation sharply upwards.

Sector's view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

Sector's forward view

It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in our major trading partners - the US and EU
- the danger of currency war and resort to protectionism and tariff barriers if China does not address the issue of its huge trade surplus due to its undervalued currency
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential for more quantitative easing, and the timing of this in both the UK and US, and its subsequent reversal
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS 2011/12

All "Specified Investments" listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Capital Expenditure?	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	NO	In-house	1 year *
Term deposits with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	NO	In-house	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes-varied** Short-term F1or F1+, Individual A or B, Support 1,2,3 or equivalent	NO	In-house	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 1 year. *Custodial arrangement required prior to purchase*	No	Yes	Yes-varied** Short-term F1or F1+, Individual A or B, Support 1,2,3 or equivalent	NO	to be used in-house after consultation/ advice from Sector	1 year
Gilts : with maturities up to 1 year *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	NO	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	1 year

APPENDIX 4

LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS 2011/12 (Continued)

All "Specified Investments" listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534) *These funds do not have any maturity date*	No	Yes	AAA	NO	In-house	*the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements*
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	NO	In-house	1 year
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities under 12 months *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	No	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	1 year
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities under 12 months *Custodial arrangement required prior to purchase*	No	Yes	AAA	No	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	1 year

**Minimum credit ratings

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS 2011/12

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expend iture?	Circumstance of use	Max Investment	Maximum maturity of investment
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	YES-varied** long-term AA- or better, Individual A or B, Support 1,2 or equivalent	NO	in-house	£3m	3 years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	YES-varied ** long-term AA- or better, Individual A or B, Support 1,2 or equivalent	NO	to be used in-house after consultation/ advice from Sector	£3m	3 years
Fixed Term Deposits with variable rates and variable maturities with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	YES-varied ** long-term AA- or better, Individual A or B, Support 1,2 or equivalent	NO	to be used in-house after consultation/ advice from Sector	£3m	3 years in aggregate

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS 2011/12 (Continued)

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating?	Capital Expenditure?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii)Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	NO	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	£3m	maturity limit 5 years
Sovereign issues ex UK govt gilts : any maturity *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	AAA	NO	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	£3m	5 years

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS 2011/12 (Continued)

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expenditure ?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities in excess of 1year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii) relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen	Yes	Yes	AAA / government guaranteed	NO	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	£3m	5 years
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii) relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen	Yes	Yes	AAA or government guaranteed	NO	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	£3m	5 years

* **The prohibition on the use of derivatives** : This prohibition effectively relies on the judgement of the House of Lords in the case of Hazell v The Council of the London Borough of Hammersmith and Fulham and Others in 1991. Their Lordships held that local authorities have no power to enter into interest rate swaps and similar instruments.
Sector believes that as this ruling still stands and will not be rescinded by the introduction of the Local Government Act 2003, local authorities will not have the power to use derivative instruments.

** minimum credit rating

APPENDIX 5

APPROVED COUNTRIES FOR INVESTMENT

AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

AA+

- Australia
- Belgium
- Hong Kong

AA

- Japan
- Kuwait
- Qatar (AA S&P rating)
- UAE

AA-

- Italy
- Saudi Arabia