Gedling Borough Council

Report to Cabinet

Subject: **Prudential and Treasury Indicators and Treasury Strategy 2013/14**

Date: 14 February 2013

Author: Corporate Director (Chief Financial Officer)

Wards Affected

Not applicable

Purpose

To present, for members' approval, the Council's Prudential Code Indicators and Treasury Strategy for 2013/14.

Key Decision

This is not a Key Decision

Background

1.1 Definition of Treasury Management

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."

It is a statutory requirement for the Council to produce a "balanced budget", which broadly means that cash raised during the year will meet cash expenditure. Sections 72 to 79 of the 2011 Localism Act places a duty on a local authority to calculate its "council tax requirement" for each financial year, and this includes the revenue costs which result from the capital investment decisions of the authority.

Part of the treasury management service is to ensure that cashflow is adequately planned, with cash being available when it is needed. Surplus cash is invested with counterparties commensurate with the Council's low risk appetite.

A further treasury management function is the funding of capital plans. These capital plans provide a guide to the Council's borrowing needs, and require longer term cashflow planning to ensure the Council can meet its spending obligations. The management of longer term cash may involve arranging long or short-term loans or the use of longer term cashflow surpluses.

1.2 Statutory Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

a. Prudential and Treasury Indicators and Treasury Strategy (this report)

This first, and most important report covers:

- The capital plans (including prudential indicators),
- A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time),
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators,
- An investment strategy (the parameters on how investments are to be managed).

b. Mid-Year Treasury Management Report

This updates members on the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is appropriate or whether any policies require revision. Gedling Borough Council has long adopted a policy of presenting quarterly treasury management reports to Cabinet, and this exceeds the minimum requirement.

c. Annual Treasury Report

This is a “stewardship” report and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

d. Scrutiny

Scrutiny of treasury management strategy and policies must be delegated to a specific named body, therefore all treasury management reports are initially considered by Cabinet, before being recommended to Council for approval. Delegation arrangements further require that reports are reviewed by the Audit Committee.

1.3 Treasury Management Strategy for 2013/14

The strategy for 2013/14 covers two main areas:

Capital Issues
- the capital plans and the prudential indicators,
- the minimum revenue provision (MRP) strategy.

Treasury Management Issues
- the current treasury position,
- treasury indicators which limit the treasury risk and activities of the Council,
- prospects for interest rates,

- the borrowing strategy,
- policy on borrowing in advance of need,
- debt rescheduling,
- the investment strategy,
- creditworthiness policy,
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny and the Chief Financial Officer will arrange training as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Sector as its treasury management advisors, recognising that there is value in employing external providers in order to acquire access to specialist skills and resources. The Council will ensure that the terms of appointment and the methods by which value will be assessed are properly agreed and documented, and subjected to regular review. 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 the external service providers.

Proposal

2.1 The Capital Prudential Indicators 2013/14 to 2015/16

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members to overview and confirm such capital expenditure plans. The indicators for 2013/14 to 2015/16 are attached at Appendix 1.

2.1.1 Capital Expenditure

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators, which are designed to assist members with their overview and confirmation of such plans. The indicator includes a summary of both the capital expenditure plans previously agreed, and those that are part of the current cycle.

Portfolio Capital Expenditure £	2012/13 Projected Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Community Development	21,200	0	0	0
Environment	1,993,300	1,820,000	865,000	809,000
Leisure & Development	50,000	700,100	80,000	0
Finance & Performance	1,050,400	1,016,000	150,000	150,000
Health & Housing	35,000	807,700	578,000	578,000
Public Prot'n & Comm'n	798,000	32,900	0	0
Equipm't Replacement	0	20,000	70,000	150,000
Service Developm't Bids	0	0	100,000	100,000
Total	**3,947,900**	**4,396,700**	**1,843,000**	**1,787,000**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing or "borrowing" need.

	2012/13 Projected Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Exp. £m (above)	**3,947,900**	**4,396,700**	**1,843,000**	**1,787,000**
Financed by:				
Capital receipts	(131,800)	(156,000)	(155,800)	(157,800)
Capital grants	(1,358,000)	(453,000)	(353,000)	(353,000)
Capital contributions	(208,400)	(497,700)	0	0
Revenue contributions	0	(200,000)	0	0
Net Financing or "Borrowing" Need	**2,249,700**	**3,090,000**	**1,334,200**	**1,276,200**

2.1.2 The Council's Borrowing Need - the "Capital Financing Requirement" (CFR)

In simple terms, the CFR is the total historic outstanding capital expenditure which has not yet been paid for, from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure in the tables above, which has not immediately been paid for by way of capital receipts, grants or contributions, will increase the Council's CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR can include any other long term liabilities, for example finance leases and PFI schemes. Whilst these would increase the CFR, and therefore the borrowing requirement, such schemes would include their own borrowing facilities and the Council would not be required to separately borrow for them. The Council has no such schemes within its CFR.

£	2012/13 Projected Outturn	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Financing Requirement:				
Closing CFR	11,960,000	14,440,200	15,087,600	15,524,500
Movement in CFR	**1,762,900**	**2,480,200**	**647,400**	**436,900**
The movement on CFR is represented by:				
Net financing need for the year above	2,249,700	3,090,000	1,334,200	1,276,200
Less gross MRP	(486,800)	(609,800)	(686,800)	(839,300)
Movement in CFR	**1,762,900**	**2,480,200**	**647,400**	**436,900**

2.1.3 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spending (CFR) each year by way of a minimum revenue provision (MRP). It is also allowed to make an additional voluntary revenue provision if it wishes (VRP).

CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a “prudent provision”. The guidance does not, however, define “prudent”, instead making recommendations on the interpretation of the term. 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, the broad aim being to ensure that borrowing is repaid over a period that reflects the useful lives of the assets acquired. The Council is obliged to have regard to the CLG guidance, but it is not prescriptive. The Council is recommended to approve the following MRP Statement for 2013/14.

a. The Council will assess MRP in accordance with the recommendations within the guidance issued under section 21(1A) of the Local Government Act 2003.

b. 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.

c. 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.

d. The Chief Financial Officer will determine estimated asset lives. Where expenditure of different types is 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.

e. When the Council 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 option 1 above).

f. Since April 2012 the Council has operated a cash-backed Local Authority Mortgage Scheme, based on a five-year advance to Lloyds TSB to match the five-year life of the indemnity. The advance placed with Lloyds provides an integral part of the mortgage lending, and is treated as capital expenditure, and a loan to a third party, therefore the Capital Financing Requirement (CFR) will increase by the amount of the advance. The advance is to be returned at maturity and the funds will be classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5-year) arrangement, there is no need to set aside prudent provision to repay the debt liability in the interim period, and there is accordingly no MRP application.

g. In view of the economic climate and significant budgetary pressures, the Council will not provide for an additional voluntary contribution to MRP in 2013/14.

Based on the above policy, the net MRP charge for 2013/14 has been calculated as £606,600, as detailed below, and this sum has been included in the Council's 2013/14 budget proposals. The exact amount of MRP will be subject to change should capital financing decisions alter during the year.

Option 1 – Regulatory Method	£296,400
Option 3 – Asset Life Method	£313,400
Gross MRP	**£609,800**
Funded by NCC-transferred debt	(£3,200)
Net MRP	**£606,600**

2.1.4 Affordability Prudential Indicators

The previous sections cover the overall "capital" and "control of borrowing" prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The 2013/14 Capital Programme report, an item elsewhere on this agenda, provides full details of the proposed programme. The indicators, which can be found at Appendix 1, represent capital investment plans that are affordable, prudent and sustainable, and which have been fully factored into the Council's Medium Term Financial Plan.

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Estimates of financing costs include current commitments and the proposals in this budget report.

b. Incremental Impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report, compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

2.2 Borrowing

The capital expenditure plans set out above provide details of the Council's service activity. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this activity. This will involve both the organisation of the cash flow and, where necessary, the organisation of approporiate borrowing facilities. The Treasury Strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

2.2.1 Current portfolio position

The Council's projected treasury portfolio position at 31 March 2013, plus forward projections are summarised below. This shows the actual external debt, ie. the treasury management operations, against the underlying capital borrowing need, ie. the Capital Financing Requirement (CFR), highlighting any over or under borrowing.

£000s	**2012/13 Proj O/T**	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**
Debt 1 April	10,812	10,812	12,812	13,812
Change in Debt in year	0	2,000	1,000	500
Other long-term liabs	0	0	0	0
Gross Debt 31 March	**10,812**	**12,812**	**13,812**	**14,312**
CFR	11,960	14,440	15,087	15,524
Under/(over) borrowing	1,148	1,628	1,275	1,212

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. CIPFA have amended the Prudential Code 2011 to replace the "net debt" indicator with a "gross debt" indicator, and require this to be implemented for 2013/14. The Council must ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

£000s	**2012/13 Proj O/T**	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**
Opening CFR	10,197	11,960	14,440	15,087
Mv't in year + following 2 yrs	4,890	3,564	1,225	687
Maximum Gross Debt	**15,087**	**15,524**	**15,665**	**15,774**
Est Debt at 31 March	10,812	12,812	13,812	14,312
Under/(over) borrowing	4,275	2,712	1,853	1,462

The Chief Financial Officer can report that the Council has complied with this prudential indicator during the current year, 2012/13, and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

2.2.2 Treasury Indicators – limits to borrowing activity

a. The Operational Boundary for external debt

This is the limit which external debt is not "normally" expected to exceed. In most cases, this would be a similar figure to the CFR, but it may be lower or higher depending on the levels of actual debt.

b. The Authorised Limit for external debt

This represents a control on the "maximum" level of borrowing. It is the statutory limit determined under s3 (1) of the Local Government Act 2003 and represents the limit beyond which external debt is prohibited. The Authorised Limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2.2.3 Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view and further information on iterest rates can be found at Appendix 2.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest in recent history. Growth prospects are weak, and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy, and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve its “fiscal cliff” difficulties. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2013/14 and beyond.
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully.
- There will remain a “cost of carry” – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

2.2.4 Borrowing Strategy

a. The Strategy

The Council is currently maintaining an under-borrowed position (see 2.2.1 above). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This represents “internal borrowing”. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *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.*

Any new borrowing will be discussed with Sector, and any decisions will be reported to Cabinet at the next available opportunity.

b. Treasury management limits on activity

There are three debt related treasury activity limits, the purpose of which is to restrain the activity of the treasury function within agreed limits, thereby managing risk and reducing the impact of adverse movement in interest rates. However, if limits are too restrictive they will impair opportunities to reduce costs or improve performance.

- An upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments.

- An upper limit on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.

  Members are asked to note that additional local indicators are also given for debt and investment individually, expressed as a percentage of the relevant totals.

- The maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

2.2.5 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 within the forward-approved CFR estimates, and 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. It will ensure that the ongoing revenue liabilities created, and the implications for the future plans of and budgets have been considered, and evaluate the economic and market factors that might influence the manner and timing of any decision to borrow. The advantages and disadvantages of alternative forms of funding will be considered, together with the most appropriate periods over which to fund.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.2.6 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;

- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Cabinet at the earliest meeting following action.

2.2.7 Annual Investment Strategy 2013/14

The intention of the Annual Investment Strategy is to provide security of investment and minimisation of risk. The aim is to generate a list of highly creditworthy counterparties which will also enable divesification and thus the avoidance of concentration risk.

a. Investment policy

The Council's investment policy has regard to the CLG's guidance on Local Government Investments ("the guidance"), and the 2011 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 firstly the security of capital, secondly the liquidity of its investments, and thirdly the rate of return. The risk appetite of the 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.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology uses the Sector ratings service whereby banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

The Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

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 <u>all</u> 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. it is made for 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 <u>not</u> meeting the criteria for specified investments. Accordingly, they may be simple investments made with the <u>same</u> counterparties as specified investments, being "non-specified" <u>only</u> by way of the maturity period being <u>over</u> 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.

Appendix 4 also sets out:

- Advantages and associated risk of investments under the non-specified category.
- The upper limit to be invested in each non-specified category.
- Those instruments best used after consultation with the Council's treasury advisers.

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

b. Creditworthiness policy

The primary principles governing the Council's creditworthiness criteria are:

- Security of capital
- Liquidity of capital
- Return on investment

With regard to security, policies are maintained for the "categories" of investment to be used, and these are set out at Appendix 4, specified and non-specified investments. For the purpose of liquidity, policies are in place for determining the maximum periods for which funds may prudently be committed with counterparties.

The Chief Financial Officer maintains a "counterparty list" using rating information provided by Sector, and this is monitored constantly. The CFO has delegated authority to amend the minimum criteria as he sees fit, and will report any such amendments to Cabinet for information as necessary. The <u>minimum</u> criteria the Council will use in selecting its counterparties are currently based on based on Fitch ratings of:

- Short term rating of F1
- Long term rating of A
- Viability rating of BBB
- Support rating of 1

In addition, the Council makes use of the creditworthiness service provided by Sector. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. By using a wider array of information than just primary ratings, and by using a risk weighted scoring system, the Sector model does not give undue preponderance to one agency's ratings. Furthermore, credit ratings are supplemented with "overlays" as follows:

- credit watches and credit outlooks from credit rating agencies.
- CDS (credit default swaps) spreads to give early warning of likely changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

The Sector approach combines credit ratings, credit watches and 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 coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested maximum <u>durations</u> for its investments with a counterparty meeting the minimum rating criteria.

- Yellow 5 years (AAA rated Government debt or its equivalent)
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No colour not to be used

All credit ratings are monitored weekly and 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 the counterparty no longer meeting the Council's minimum criteria, its further use for new investment will be withdrawn immediately.

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

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA minus. Appendix 5 sets out the countries currently meeting the criteria for investment by the Council. However, for some time the CFO has adopted a policy to lend only to UK registered institutions, and this is expected to continue for 2013/14. Given the extreme volatility of market conditions, this policy will of course be subject to ongoing review by the CFO, in conjunction with advice from Sector. The list will be added to, or deducted from, by officers should ratings change in accordance with this policy

While the UK currently has an AAA sovereign rating, it is possible that this could be downgraded by one or more rating agencies during 2013.

Under the cash-backed Local Authority Mortgage Scheme, launched in April 2012, the Council has made an advance of £1m to Lloyds Banking Group for a period of five years, to match the life of the indemnity. This is classified as being a “service investment”, rather than a treasury management investment, and is therefore outside of the Specified/Non specified categories.

c. Investment Strategy

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

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

Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014. Bank Rate forecasts for financial year ends are:

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 0.75%
- 2015/16 1.75%

There are downside risks to these forecasts (ie. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England’s 2% target rate.

Sector’s suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next four years are as follows:

2012/13	0.50%
2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

As a result of fixed investments already secured, the outturn equated rate for 2012/13 is expected to be around 1.9%, and the Council’s budgeted equated return for 2013/14 is 1.59%, both significantly in excess of the returns above.

An investment treasury indicator and limit must be set for the maximum principal funds invested for periods in excess of 364 days in the forthcoming and two subsequent years (ie. new non-specified investments). The limit for each year is set with regard to the Council’s liquidity requirements.

The limit for each of 2013/14, 2014/15 and 2015/16 is £3m, subject to the overall limit of £3m for total non-specified investments held at any one time at Appendix 4.

d. 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.

e. Provision for credit-related loss

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

f. 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.

g. Policy on the use of external service providers

The Council uses Sector as its external treasury management advisers, however it recognises that responsibility for treasury management decisions remains with the organisation at all times, and will ensure that undue reliance is not placed upon external service providers.

The Council 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

2.2.8 Gedling Borough Council 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)
- Annual budget approval

Cabinet is responsible for:

- Approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and virement approval
- Approval of the division of responsibilities
- Receiving and reviewing regular Treasury Management 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.

2.2.9 The role of the Section 151 Officer

The Chief Financial Officer is the Council's nominated S151 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
- The appointment of external service providers

Alternative Options

3. There are no alternative options, this report being a requirement of the Council's Treasury Management Strategy Statement (TMSS).

Financial Implications

4. No specific financial implications are attributable to this report.

Appendices

5. Appendix 1 Prudential and Treasury Indicators 2013/14 to 2015/16
Appendix 2 Interest rate forecasts
Appendix 3 Economic background
Appendix 4 Specified and non-specified investments
Appendix 5 Approved countries for Investment

Background Papers

6. None identified.

Recommendation

THAT: Members note the Prudential Indicators and Treasury Strategy 2013/14 as detailed in the report, and refer it to Full Council for approval as required by the regulations.

Reasons for Recommendations

7. To comply with the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

APPENDIX 1

PRUDENTIAL AND TREASURY INDICATORS FOR 2013/14 to 2015/16

Prudential Indicators

		2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
a)	Capital Expenditure (2.1.1)	£4,396,700	£1,843,000	£1,787,000
b)	Capital Financing Requirement (CFR) (2.1.2)	£14,440,200	£15,087,600	£15,524,500
c)	Ratio of Financing Costs to Net Revenue Stream (2.1.4a)	6.37%	7.35%	8.32%
d)	Incremental impact of new 2013/14 capital investment decisions (2.1.4b)	£5.65	£6.98	£6.95
e)	Maximum Gross Debt (2.2.1)	£15,524,500	£15,665,400	£15,774,200

Treasury Management Indicators

		2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
a)	Operational Boundary for External Debt (2.2.2a)			
	-Borrowing	£16,500,000	£16,700,000	£16,800,000
	-Other Long Term Liabilities	£1,500,000	£1,500,000	£1,500,000
	Total Operational Boundary	**£18,000,000**	**£18,200,000**	**£18.300,000**
b)	Authorised Limit for External Debt (2.2.2b)			
	-Borrowing	£17,500,000	£17,700,000	£17,800,000
	-Other Long Term Liabilities	£1,500,000	£1,500,000	£1,500,000
	Total Authorised Limit	**£19,000,000**	**£19,200,000**	**£19,300,000**
c)	Upper limit for fixed interest exposure (Max o/s net Borrowing) (2.2.4b)	£15,500,000	£15,700,000	£15,800,000
	Local indicator-Investment only	100%	100%	100%
	Local indicator-Borrowing only	100%	100%	100%
d)	Upper limit for variable interest exposure (Max o/s net Borrowing) (2.2.4b)	£2,000,000	£2,000,000	£2,000,000
	Local indicator-Investment only	100%	100%	100%
	Local indicator-Borrowing only	50%	50%	50%
e)	Upper limits for maturity structure of outstanding borrowing during 2013/14 (all lower limits 0%) (2.2.4b)			
	Under 1 year	20%		
	1-2 years	35%		
	2-5 years	50%		
	5-10 years	50%		
	Over 10 years	100%		
f)	Investment treasury indicator and limit (2.2.7c) Maximum new principal sums invested for periods over 364 days (subject to Total non-specified investment limit of £5m)	3,000,000	3,000,000	3,000,000

APPENDIX 2

Sector's Interest Rate View	Now	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%
6 Month LIBID	0.54%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%
12 Month LIBID	0.88%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%
5yr PWLB Rate	1.85%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yr PWLB Rate	2.87%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yr PWLB Rate	4.02%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yr PWLB Rate	4.15%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
Bank Rate														
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate														
Sector's View	1.85%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.85%	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.85%	1.55%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yr PWLB Rate														
Sector's View	2.87%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.87%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.87%	2.55%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yr PWLB Rate														
Sector's View	4.02%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	4.02%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	4.02%	3.70%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yr PWLB Rate														
Sector's View	4.15%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.15%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.15%	4.00%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

APPENDIX 3

ECONOMIC BACKGROUND

The Global economy

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to have grown significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 0.9% in quarter 3 is unlikely to prove anything more than a washing out of the dip in the previous quarter before a probable return to negative growth in quarter 4; this would leave overall growth in 2012 close to zero and could then lead into negative growth in quarter 1 of 2013, which would then mean that the UK was in its first triple dip recession since records began in 1955.

Eurozone

The Eurozone sovereign debt crisis abated following the ECB's commitment to a programme of Outright Monetary Transactions i.e. a pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request, (for a national bailout), and so surrendering its national sovereignty to IMF supervision. However, the crisis in Greece has subsided, for the time being, as a result of the Eurozone agreement to provide a further €50bn financial support package in December. Many commentators, though, still view a Greek exit from the Euro as being likely in the longer term as successive rounds of austerity packages could make it more difficult to bring down the annual deficit and total debt as ratios of GDP due to the effect they have on shrinking the economy and reducing employment and tax revenues. However, another possible way out would be a major write down of total Greek debt; this has now been raised by the German Chancellor as a possible course of action, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and additional financial support for Greece to ensure that the Eurozone remained intact during 2012. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and do not address the huge obstacle of unemployment rates of over 25% in Greece and Spain. It is also possible that the situations in Portugal and Cyprus could deteriorate further in 2013 and, although they are minor economies, such developments could unnerve financial markets. There are also general elections coming up in Italy and Germany which could potentially produce some upsets on the political scene. It is, therefore, quite possible that sentiment in financial markets could turn during 2013 after the initial burst of optimism at the start of the year. While equity prices have enjoyed a strong start to 2013, the foundations for this stock market recovery are shallow given the economic fundamentals in western economies. In addition, QE has to come to an end at some point in time and there is a distinct increase in doubt in the central banks of the US and UK as to the effectiveness of any further QE in stimulating economic growth. An end to central purchases of bonds may lead to a fall in bond prices.

United States

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. The fiscal cliff, and raising the total debt ceiling, still await final resolution by the end of February. The housing market, though, does look as if it has, at long last, reached the bottom and house prices are now on the up.

Emerging Markets

Hopes for a broad based recovery have, therefore, focused on the emerging markets. Recent news from China appears to indicate that the economy has returned to a healthier rate of growth. However, there are still concerns around the unbalanced nature of the economy which is heavily dependent on new investment expenditure. The potential for the bubble in the property sector to burst, as it did in Japan in the 1990s, could have a material impact on the economy as a whole.

The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended, in the autumn statement, over a longer period than the original four years. Achieving this new extended timeframe will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. However, the subsiding of market concerns over the Eurozone has unwound some of the attractiveness of gilts as a safe haven and led to a significant rise in gilt yields. There is little evidence that UK consumer confidence levels are recovering, nor that the manufacturing sector is picking up. The dominant services sector disappointed in December with the PMI survey indicating the first fall in activity in two years. On the positive side, banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact in respect of materially increasing overall borrowing in the economy. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth

Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) increased by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE in early 2013 to try to stimulate economic activity. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) was also effectively a further addition of QE.

Unemployment

The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate

Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% by the end of the year, though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating

The UK continues to enjoy an AAA sovereign rating. However, the three main credit rating agencies have stated that they will be reviewing this rating in early 2013; they will, thereafter, also be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself. The same considerations could also apply to Spain;

- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession;
- stimulus packages failing to stimulate growth;
- elections due in Italy and Germany in 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China;
- the potential for action to curtail the Iranian nuclear programme;
- the situation in Syria deteriorating and impacting other countries in the Middle East.

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

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. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields;
- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held;
- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone;
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth;
- The possibility of a UK credit rating downgrade.

LOCAL GOVERNMENT INVESTMENTS (England) (i)

SPECIFIED INVESTMENTS 2013/14

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 Local Authorities 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–various Minimum (Fitch) Short-term F1, Long Term A Viability BBB Support 1	NO	In-house	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) up to 1 yr. *Custodial arrangement required prior to purchase*	No	Yes	Yes–various Minimum (Fitch) Short-term F1, Long Term A Viability BBB Support 1	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) (ii)

SPECIFIED INVESTMENTS 2013/14 (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 Collective investment schemes 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

LOCAL GOVERNMENT INVESTMENT (England) (iii)

NON-SPECIFIED INVESTMENTS 2013/14

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Exp?	Circumstance of use	Maximum 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–various Minimum (Fitch) Short-term F1 Long Term A Viability BBB Support 1	NO	In-house	£3m any one counterparty AND £5m in total	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–various Minimum (Fitch) Short-term F1 Long Term A Viability BBB Support 1	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–various Minimum (Fitch) Short-term F1 Long Term A Viability BBB Support 1	NO	To be used in-house after consultation/advice from Sector	£3m	3 years in aggregate

LOCAL GOVERNMENT INVESTMENT (England) (iv)

NON-SPECIFIED INVESTMENTS 2013/14 (Continued)

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Exp?	Circumstance of use	Maximum investment	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) (v)

NON-SPECIFIED INVESTMENTS 2013/14 (Continued)

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Capital Exp?**	**Circumstance of use**	**Maximum Investment**	**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 (but 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

APPENDIX 5

APPROVED COUNTRIES FOR INVESTMENT

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- United Kingdom

AA+

- France
- Hong Kong
- USA.

AA

- Abu Dhabi
- Qatar
- UAE

AA-

- Belgium
- Japan
- Saudi Arabia