CITY OF PLYMOUTH

Subject:	Treasury Management Strategy Statement and Annual Investment Strategy 2012/13
Committee:	Audit Sub-Committee Cabinet Full Council
Date:	27 January 2012 7 February 2012 27 February 2012
Cabinet Member:	Councillor Bowyer
CMT Member:	Director of Corporate Services
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Ref:	Acct/AL
Key Decision:	Yes
Part:	I

Executive Summary:

The Local Government Act 2003 requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. Officers have worked closely with the Council's Treasury Management advisors, Arlingclose Ltd, to review the options available to produce a borrowing and investment strategy that seeks to balance financial returns from the Council's cash balances whilst at the same time minimising financial risk to the Council.

This report outlines how the treasury management function contributes to the Council's overall policy objectives. It also outlines the risks inherent within the treasury management function and how officers will seek to minimise those risks.

The borrowing and investment policies proposed in this report therefore offer flexibility for the Director for Corporate Services, acting under delegated powers in accordance with the Constitution, to respond quickly to market circumstances without the need to seek prior Cabinet approval. Any amendments to the Treasury Management Strategy will require the approval of Cabinet with the exception of changes to the Prudential Indicators which can only be approved by Full Council.

The strategy over the medium term will be to align borrowing with the Capital Financing Requirement and investments with available balances and reserves.

The Council will continue to regard Risk, Security and Liquidity as the key factors in all its investments with the interest rate achieved only considered after these prime objectives. Following discussions with Arlingclose it is proposed that investments be limited to a maximum of one year with organisations meeting the appropriate credit quality, with consideration to longer-term investments in pooled funds and government/corporate bonds. Further details are outlined in the report.

This report also outlines the Council's Prudential Indicators for the next three years as required by the Local Government Act 2003, together with the MRP policy for 2012/13 required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. These require approval by Full Council. The CIPFA Code of Practice on Treasury Management requires a formal mid year report and an end of year report, as a minimum, to be produced and presented to Full Council.

Corporate Plan 2012 - 2015:

Effective financial management is fundamental to the delivery of the Corporate Plan and our priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating delivery against a number of corporate priorities.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns.

Other Implications: e.g. Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion

The volatility and uncertainty within the global financial markets continues to have a substantial effect on Treasury Management activities. The Council's investment strategy is constantly monitored and acted upon through the Treasury Management Board which meets weekly. The report outlines the risks specific to the treasury management function.

Recommendations & Reasons for recommended action

1 To request the Director of Corporate Services, acting under delegated authority in accordance with the Constitution, to keep the lending list under review and update the list during the year as dictated by market circumstances.

2. To recommend Full Council approve:

(a) The Treasury Management Policy Statement (Appendix A to this report)

(b) The Treasury Management Strategy Statement for 2012/13

(c) The Investment Strategy for 2012/13 set out in Sections 8 and 9 of the report including the use of Specified and Non-Specified Investments

(d) The Lending Organisations and Counterparty limits set out in Appendix D

(e) The Prudential Indicators set out in the report covering the revised indicators/limits for 2011/12 and the forecasts/limits for 2012/13 to 2014/15

(f) The Authorised Borrowing limits of £309m, £284m and £274m for the period 2012/13 to 2014/15

(g) The Operational Boundary of £279m, £268m and £259m for 2012/13 to 2014/15

(h) The MRP policy for 2012/13

Alternative options considered and reasons for recommended action:

It is statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual Treasury Management Strategy for borrowing and prepare an Annual Investment Strategy. This strategy including Prudential Indicators and the MRP policy must be approved by Full Council.

Background papers:

Treasury Management budget working papers

Sign off:

Fin	DN/CorpF1112 002/11.01.12	Leg	13768/DVS	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member : Malcolm Coe											

Treasury Management Strategy Statement and Annual Investment Strategy 2012/13

1. Introduction/Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to set a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2 CIPFA has defined Treasury Management as:

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

1.3 The Council's Treasury Management Policy Statement is set out in Appendix A. Treasury Management activity is a key factor for the Council achieving its objectives. The strategy takes into account the impact of the Council's revenue budget and capital programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

1.4 Each year, Officers work with the Council's Treasury Management advisors, currently Arlingclose, to develop a strategy that seeks to balance financial returns from the Council's cash balances whilst at the same time minimising, as far as possible, the risks associated with treasury management activity. The Council's detailed Treasury Management Strategy and Annual Investment Strategy is presented to an Audit Sub-Committee for scrutiny, prior to submission to Cabinet and Full Council for final approval.

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

- Treasury Management Strategy for 2012/13;
- Annual Investment Strategy for 2012/13 including the use of Specified and Non-Specified investments;
- Prudential Indicators for 2012/13, 2013/14 and 2014/15;
- MRP Statement; and
- Counterparty List applicable from 1 April 2012

1.6 A key element of Treasury Management is the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk and this is covered in this report.

1.7 As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at its meeting of Full Council in April 2002. The council has incorporated the changes from the revision to the CIPFA Code of Practice in 2009 and 2011 into its treasury policies, procedures and practices.

1.8 All treasury management activity will comply with relevant statute, guidance and accounting standards

2. Treasury Management Risk

2.1 No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of the Council's treasury management activities. The CIPFA code lists risks to treasury activity as:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud)

2.2 The Council will continue to minimise risks contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balances certainty and security with liquidity and yield. The Council will continue to make use of internal borrowing and short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments. Further details of specific risks in the current borrowing and investment portfolios are outlined in the relevant sections.

2.3 Risk is managed by way of the limits set within the Prudential and Treasury Indicators which are required to be approved by Full Council before the start of each financial year.

3. The Use of Financial Instruments for the Management of Risks

3.1 Financial Instruments called derivatives are generally used to hedge risk, but can also be used for speculative purposes. Derivatives are instruments that can be bought to offset the risk of investments or debt held by the Council. They can be used to provide a hedge against interest rate risks. An example would be an interest rate swap used to exchange variable interest rates for fixed interest rates or vice versa reducing the risk of exposure to large levels of variable or fixed debt and balancing this against the mixture of variable and fixed rate investments.

3.2 Currently Local Authorities' legal powers to use derivative instruments remain unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently the Authority does not intend to use derivatives.

3.3 Should the position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives such as interest swaps and options, but this change in strategy will require Full Council approval.

4. The Council's Forecast Treasury Position

4.1 This report including Prudential Indicators is based on the latest available information on the Capital Programme and financing for 2011-12 to 2014-15. This is subject to approval by Cabinet on 7th February 2012. Any amendments to Prudential Indicators as a result of updates to the Capital Programme will be reported as a supplement to this report to be approved by Full Council on 27th February 2012.

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with the Cash Backed Internal Balances, are the core drivers of the Authority's Treasury Management activities. The movement in actual external debt and balances combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. The forecast CFR, borrowing, balances and the resulting net borrowing requirement is set out in table 1 below.

Table 1

	2011/12 Estimate £m	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2104/15 Estimate £m**
Total CFR	270.235	260.698	251.399	242.480
Less: Existing profile of borrowing	204.403	191.315	191.315	191.315
Other Long Term Liabilities	35.016	33.776	32.502	31.191
Cumulative Maximum External Borrowing Requirement	**30.816**	**35.607**	**27.582**	**19.974**
Internal Balances*	**60.354**	**51.700**	**66.689**	**71.336**
Cumulative Net Borrowing Requirement/(Investments)	**(29.538)**	**(16.093)**	**(39.107)**	**(51.362)**

*Internal Balances includes MRP that can be used to repay debt/reduce future borrowing requirements

4.3 The actual and estimated treasury position for 31/3/2012 and 31/3/2013 is as follows:

Table 2

	11/01/2012 Actual £m	Ave %	31/3/2012 Estimate £m	Ave %	31/3/2013 Estimate £m
External Borrowing					
Fixed Rate PWLB	61.315	5.40	61.315	5.40	61.315
Fixed Rate – Lobo	66.000	4.41	66.000	4.41	86.000
Variable Rate – Lobo	64.000	4.43	64.000	4.43	44.000
Temporary Borrowing	10.000	0.30	15.000	0.30	7.179
Fixed Rate Bonds	0.083	1.00	0.083	1.00	0.083
Sub Total External Borrowing	201.398	4.51	206.398	4.41	198.577
PFI	31.017	8.73	31.017	8.73	30.247
Finance Leases	2.759		2.759		2.255
Total External Debt	**235.174**		**240.174**		**231.079**
Total Investments	**78.007**	**1.00**	**53.000**	**1.00**	**52.000**

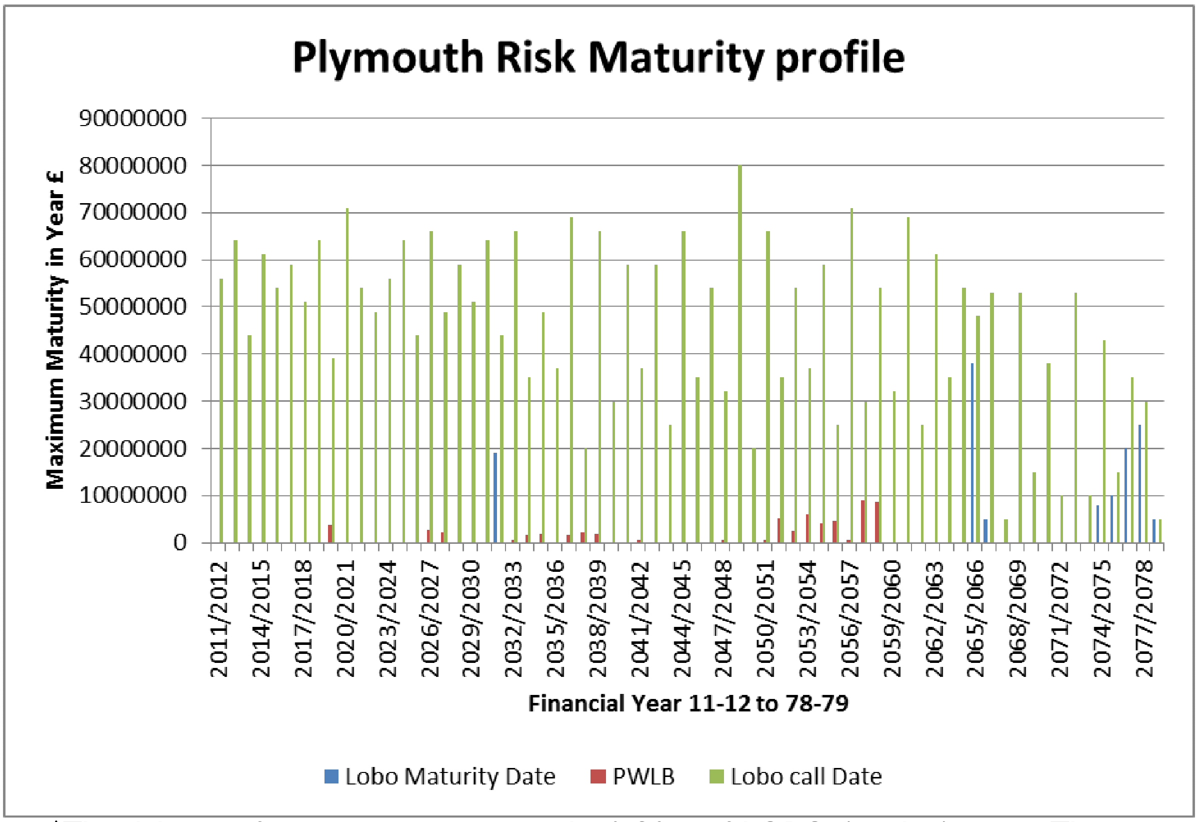
4.4 Lobo loans are lender option borrower option loans, where the lender has the option to vary the rate at pre-agreed dates and the borrower then has the option to accept this rate or repay the loan. The option dates are set for periods ranging from 2 to 5 years. Where the period to the option date is one year or greater the loan is treated as a fixed rate. Where the period to the option date falls below one year the loan then becomes potentially subject to a change in rate in that year and therefore the loan is treated as a variable rate loan.

4.5 The Portfolio above allows for a reduction in short-term borrowing and an emphasis on internal borrowing due to current credit conditions. Internal borrowing using available balances is forecast to be £43m at 31st March 2012. This is subject to variation based on changes in forecast cashflow. If credit conditions improve and short-term rates remain low, further borrowing will be considered reducing the level of internal borrowing and increasing the level of both external debt and investments at 31st March 2012 and 31st March 2013.

4.6 Debt Maturity

The following graph shows the maturity profile of the Council's external debt.

Figure 1



*The debt portfolio continues to include £130m of LOBO (market) loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed adversely. This is reflected within the maturity profile shown above (in green) to enable officers to risk manage the Council's cashflows.

4.7 The debt portfolio continues to have a higher weighting of market (LOBO) loans to PWLB. LOBO loans inherently carry a higher risk than PWLB loans as the Council cannot effectively control the repayment of such loans and is unable to take advantage of rescheduling opportunities when interest rates change. This will be addressed over time with any new long term borrowing taken in PWLB loans.

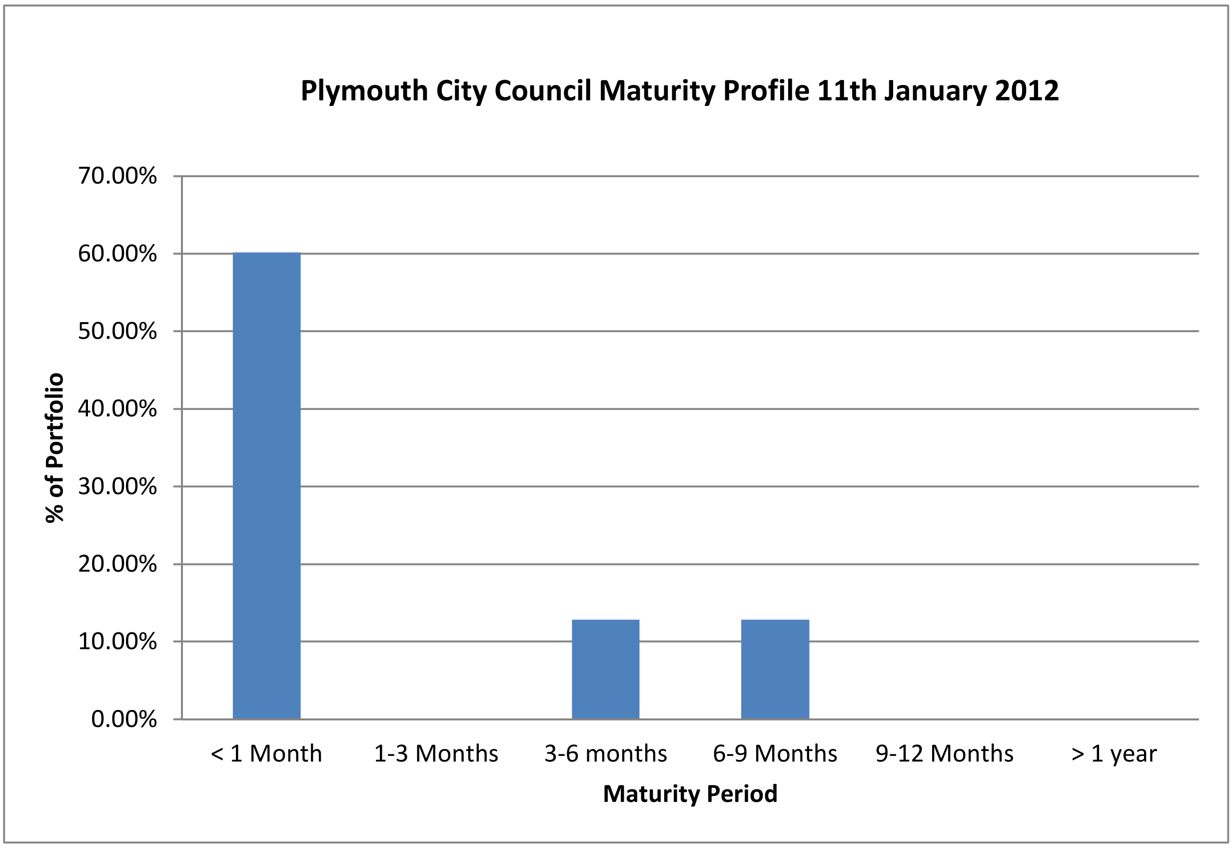
4.7 The estimate for interest payable during 2012/13, as included in the revenue budget, is £9.060m. This compares to the latest forecast for 2011/12 of £9.216m. The forecast reduction is based on a lower estimated level of short-term debt.

4.8 **Investments**

The Council's investments at 11 January 2012 are £78.007m, estimated to reduce to £53m at the end of the year based on forecast cashflow requirements and the continued strategy of using internal balances to cover the borrowing requirement for capital expenditure. The actual position at year end will depend on the continuation of this strategy and the credit conditions for the rest of the financial year.

The graph below shows the current maturity profile of the Council's investments.

Figure 2



4.9 The Council's investments at 11 January 2012 were as follows:

Table 3

Counterparty	**Total**
	£m
Iceland	11.062
Banco Santander	
Santander UK	9.915
Lloyds Banking Group	
Bank of Scotland	10.475
Barclays	15.000
Royal Bank of Scotland (RBS)	16.555
Nationwide	15.000
Total	**78.007**

4.10 In terms of risk management, with the exception of the £11.062m still held in Iceland, the investment portfolio is now held either in UK banks or building societies, or UK subsidiaries of foreign banks. These banks are viewed as systemically important to the UK economy and as such in the short to medium term would have the support of the UK government. Whilst these institutions continue to have this support, there is a risk, albeit a small risk, should the UK Government, i.e. our sovereign state, collapse.

4.11 The estimate for interest receipts for 2012/13 as included in the revenue budget proposals is £0.53m.

5. Interest Rate Forecasts

5.1 The economic and interest rate forecast provided by the Authority's treasury management advisor, Arlingclose, is attached at appendix B. The Authority will reappraise its strategy from time to time in response to evolving economic, political and financial events.

6 The Council's Borrowing Requirement and Prudential Indicators

6.1 The underlying need to borrow for capital

6.1.1 The underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR). The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the revenue budget each year. The estimated MRP included in the 2012/13 budget is £8.59m.

6.2 Table 4 below shows the estimated CFR over the medium term.

Table 4 Prudential Indicator- CFR

Capital Financing Requirement	31/3/2012 Approved £m	31/3/2012 Revised £m	31/3/2013 Estimate £m	31/3/2014 Estimate £m	31/3/2015 Estimate £m
Total CFR	**269.456**	**270.235**	**260.698**	**251.399**	**242.480**

6.3 Capital expenditure not financed from internal resources, i.e. not from capital receipts, capital grants and contributions, revenue or reserves, will produce an increase in the CFR (the underlying need to borrow) and may in turn produce an increased requirement to charge MRP to the Revenue Account.

6.4 The funding of the capital programme is kept under constant review. Due to the removal of supported borrowing previously included within the settlement for capital programmes, replaced by grant, the majority of borrowing taken to cover capital expenditure is unsupported funding with the full cost of this borrowing being met from the Council's revenue budget. Due to the pressure on the revenue budget any capital schemes requiring unsupported borrowing will be limited. The estimated borrowing requirement forecast to cover the capital programme over the next 3 years based on the current approved programme is:

	£m
2012/13	5.242
2013/14	Nil
2014/15	Nil

An additional £3.066m of short-term borrowing may be required in 2012/13 to cover the timing differences in realising capital receipts. This borrowing will be repaid from expected capital receipts in the following year. The borrowing requirement is expected to be met from short-term borrowing, cashflow and internal balances.

6.5 Actual borrowing may be greater or less than the CFR but, in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimated additional CFR for the current and next two financial years. The Council will have no borrowing in advance at 1 April 2012.

6.6 Under Section 3 of the Local Government Act 2003 and supporting regulations the Council must determine and keep under review how much it can afford to borrow. The Council is required to set two limits:

- The Authorised Limit
- The Operational Boundary

6.7 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments). The limits include any PFI or Finance Lease repayments. The limits proposed for the medium period are shown in table 5.

Table 5 Prudential Indicator – Authorised Limit for External Debt

Authorised Limit for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Limit £m	2013/14 Limit £m	2014/15 Limit £m
Borrowing	337	256	**275**	251	243
Other Long-term Liabilities	31	35	**34**	33	31
Total	**368**	**291**	**309**	**284**	**274**

6.8 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario, but without the additional headroom included within the Authorised Limit. Table 6 shows the Operational Boundary proposed for the medium term period.

Table 6 Prudential Indicator – Operational Boundary for External Debt

Operational Boundary for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Limit £m	2013/14 Limit £m	2014/15 Limit £m
Borrowing	312	236	**245**	235	228
Other Long-term Liabilities	31	35	**34**	33	31
Total	**343**	**271**	**279**	**268**	**259**

6.9 The Borrowing limits are required to be formally approved by Full Council and, whilst these can be amended during the year, any amendment also requires Full Council approval. The limits will reduce in 2013/14 and 2014/15 as debt is repaid and the forecast borrowing for the capital programme is reduced.

6.10 The Director for Corporate Services has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Full Council.

6.11 The Prudential Code requires that capital expenditure remains within sustainable limits and, in particular, requires authorities to consider the impact on Council Tax. The tables below show the anticipated capital expenditure over the period to 2014/15, as outlined in the latest approved capital programme, and how this expenditure will be financed.

Table 7 Prudential Indicator – Estimates for Capital Expenditure

Capital Expenditure *	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Total	**85.201**	**78.662**	**50.721**	**28.7978**	**14.881**

The capital expenditure is expected to be financed as follows:

Table 8

Capital Financing *	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Capital Receipts	19.642	**20.126**	9.955	5.077	-
Grants and Contributions	42.642	**33.575**	33.177	23.472	13.294
Section 106/Tariff	6.573	**1.857**	0.956	0.051	1.250
Revenue/Fund	0.015	**3.298**	1.391	0.198	0.337
Total Financing	68.872	**58.856**	45.479	28.798	14.881
Borrowing:					
Supported Borrowing	0.078	**0.277**	0.047	-	-
Unsupported Borrowing	16.251	**19.529**	5.195	-	-
Total Borrowing Requirement	16.329	**19.806**	5.242	-	-
Total Financing	**85.201**	**78.662**	**50.721**	**28.798**	**14.881**

*The 2011/12 approved figures are as per the 2011/12 budget book with the 2011/12 revised and 2012-13 to 2014/15 estimates based on the latest forecast in the Quarter 3 capital monitoring report.

6.12 Incremental Impact of Capital Investment Decisions

As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Table 9 Prudential Indicator – Incremental Impact of Investment Decisions

Incremental Impact of Capital Investment Decisions	2011/12 Approved £	2011/12 Revised £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Increase in Band D Council Tax	1.96	0.81	**0.92**	5.12	7.44

6.13 The impact on the Council Tax in 2012/13 and future years reflect the cumulative cost of financing the approved capital programme in 2012/13 to 2014/15.

6.14 Ratio of Financing Costs to Net Revenue Stream

The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the costs net of investment income.

Table 10 Prudential Indicator – Ratio of Financing Costs to Net Revenue Stream

Ratio of Financing Costs to Net Revenue Stream	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
	7.29	6.90	**8.56**	8.67	8.42

7 The Borrowing Strategy for 2012/13

7.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Appendix B indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the gap between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years), it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

7.2 The Authority's current level of debt and investments is set out at Table 1 and Table 2 in section 4 of this report.

7.3 Although the Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15, the reducing CFR forecast as a result of MRP being in excess of any new borrowing over the next 3 years means any borrowing will be limited to the in year CFR.

7.4 As indicated in Table 1 in Section 4 of this report, the Authority has a forecast gross borrowing requirement of £35.607m in 2012/13 but has sufficient balances to avoid the need for external borrowing. By essentially lending its own surplus funds to itself, the Authority is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances. If credit conditions improve, the Director for Corporate Services will consider externalising this borrowing using short – term loans or long-term loans as part of a balanced maturity profile within the Prudential Indicators included in this report. The Council will adopt a flexible approach to borrowing in consultation with its treasury management advisors, Arlingclose. The following issues will be considered prior to undertaking any external borrowing.

- Affordability
- Credit and Counterparty risk of increased investments
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing Source

7.5 Borrowing options available to the Council are:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues
- Structured finance
- Leasing

7.6 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

7.7 The Authority has £130m exposure to LOBO loans (Lender's Option Borrower's Option) of which £64m of these can be "called" within 2012/13. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion.

Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

7.8 **Debt rescheduling**

The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

As opportunities arise, they will be discussed with the Council's treasury advisors.

7.9 Borrowing and rescheduling activity will be reported to the Cabinet in the quarterly monitoring report and formal treasury management mid-year and annual reports will be presented to Audit Committee and Full Council.

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

Table 11 Treasury Indicator – Upper Limits for Interest Rate Exposure

	2011/12 Approved %	**2011/12 Revised** %	**2012/13 Limit** %	**2013/14 Limit** %	**2013/14 Limit** %
Upper Limit for Fixed Interest Rate Exposure	200	225	**200**	200	200
Upper Limit for Variable Interest Rate Exposure	85	85	**50**	50	50

7.11 The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

Table 12 Treasury Indicator – Maturity Structure of Fixed Rate Borrowing

Maturity structure of fixed rate borrowing	**Approved Upper limit for 2011/12 %**	**Upper Limit for 2012/13 %**	**Lower Limit for 2012/13 %**
under 12 months	50	**50**	**0**
12 months and within 24 months	70	**60**	**0**
24 months and within 5 years	35	**40**	**0**
5 years and within 10 years	25	**25**	**0**
10 years and within 20 years	25	**30**	**0**
20 years and within 30 years	25	**30**	**0**
30 years and within 40 years	25	**25**	**0**
40 years and within 50 years	35	**40**	**0**
50 years and above	50	**25**	**0**

These limits are based on the risk of Lobo loans being called and repaid at the next option date and not at the final maturity date.

7.12 The update of the CIPFA Treasury Management Code of Practice issued in November 2011 introduced an additional Prudential Indicator to highlight a situation where the Council is planning to borrow in advance of its cash requirements. This can be expressed as a limit on the percentage of net debt against gross debt as set out in table 13 below.

Table 13 Treasury Indicator – Gross and Net Debt – Limit of net debt as a percentage of gross debt.

Net Debt as a % of Gross Debt	**2011/12 Estimated %**	**2012/13 Limit %**	**2013/14 Limit %**	**2014/15 Limit %**
Upper Limit	80	80	80	80
Lower limit	36	35	35	35

The upper limit allows for periods where deposits are reduced, due to cashflow and the use of internal borrowing, to reduce credit risk. The lower limit allows for periods where cash and investments are increased due to positive cashflow, particularly in periods where grant funding is received. The higher the % the lower the credit risk of holding higher level of investments. CIPFA has acknowledged that the upper limit does not work as was intended and is working on a revised indicator. This indicator will be amended once revised guidance has been received from CIPFA and will be included in the Treasury Management mid-year report.

7.13 **Tax Incremental Financing**

In its White Paper "Local Growth: realising every place's potential" which was released in November 2010, the Government outlined its plans to give councils the tools to promote growth, including giving more freedom for local authorities to make use of additional revenues to drive forward economic growth in their areas. To this aim they are looking to introduce new borrowing powers to enable authorities to carry out Tax Incremental Financing (TIF).

In determining the affordability of borrowing for capital purposes, local authorities take account of their current income streams and forecast future income. Currently this does not factor in the full benefit of growth in local business rate income. TIF will enable local authorities to borrow against a future additional uplift to their business rates base. This will require new legislation and will be closely linked to another Government initiative concerning the localisation of business rates i.e. local retention of business rate income. It will be important to manage the costs and risks of this borrowing alongside wider borrowing under the Prudential Code.

Further information will be available via the Local Government Resource Review which is due to be announced shortly.

ANNUAL INVESTMENT STRATEGY 2012-13

8 Investment Policy

8.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.

8.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

8.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

8.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 13 Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies (CD's)	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	×

8.5 A number of changes have been implemented to the investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds and the reduction in deposit maturities with these banks/building societies from 2 years as set in the 11-12 strategy to 1 year for the 12-13 strategy. The director of Corporate Services has delegated authority to manage counterparty limits with the maximum maturity limits set out within the 2012-13 investment strategy.

8.6 The financial institution credit rating limits in place and proposed for 12-13 is a minimum long-term rating of A- or equivalent and a minimum short-term rating of F1 or equivalent with a minimum long-term sovereign rating for non UK countries of AA+ or equivalent. The financial institution limit proposed is lower than the A+ minimum originally adopted in 2011/12 and is a response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system. The minimum credit rating required to be met from all three credit rating agencies are:

Fitch Long-Term (LT) A- Short-Term (ST) F1
Moody's Long-Term (LT) A3 Short-Term (ST) P-1

Standard & Poor's Long-Term (LT) A- Short-Term (ST) A-1

8.7 In response to these downgrades it is proposed to reduce the counterparty limits for Non-UK banks from £10m to £5m whilst increasing the limits available for using Money Market Funds (MMF's) from 10% to 20% of the investment portfolio and Bonds issued by multilateral investment banks from 10% to 20% to increase the flexibility and security of investments at times of increased credit risk.

8.8 Within the criteria set out above new specified and non-specified investments will be made/considered within the following limits:

Specified Investments				
Investment		Minimum Security / Credit Rating	Maximum Amount	Maximum Period
Term Deposit UK Government	DMADF (DMO)	Government Backed	No limit	12 Months
Term Deposits/Bills	UK Local Authorities: Unitary Councils County Councils Metropolitan Councils London Borough Councils	High Security	£5m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1	£30m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	Non-UK Banks	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1 In select countries with a minimum Sovereign Rating of AA+	£5m	12 Months
Gilts	UK Government	Government Backed	20% of total investments	12 Months
T-Bills	UK Government	Government Backed	No limit	12 Months
Bonds issued by multilateral development banks	Non-UK	AAA or Government Guaranteed	20% of total investments	12 Months
Corporate Bonds	UK Companies	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1	10% of total Investment	12 Months
Commercial Paper *	UK Companies	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1	10% of total Investments	9 Months
Money Market Funds	CNAV MMF's VNAV MMF's (where there is greater than	AAA	20% of total investments Max £5m	Call

	12 month history of a consistent £1 Net Asset Value)		per fund limited to 0.5% of total fund value	
Other MMF's and Collective Investment Schemes	Various	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m	No set maturity date

* Commercial Paper (CP) is a short-term unsecured promissory note with a fixed maturity of 1 to 270 days. It is a money-market security issued (sold) by large banks and corporations to raise funds to meet short term debt obligations (for example, payroll), and is backed by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Although originally a paper instrument (hence the name), CP is now issued electronically and the notes are held in accounts on a central electronic register.

The reduction in the proposed strategy to limit investment with Banks and Building Societies to a maximum of one year limits the investments that are available to be used that fall within the category of Non-Specified Investments. These investments are required to be identified separately to ensure the Council understands these are higher risk, either due to counterparty risk, liquidity risk and/or interest rate risk. The Council has traditionally invested in term deposits or call accounts, although the annual strategy statements have outlined a number of other specified and non-specified instruments. Non-specified investments available to be used in 2012/13 are detailed below.

Non-Specified Investments				
Investment		Minimum Security / Credit Rating	Maximum Amount	Maximum Period
Term Deposits	UK Local Authorities: Unitary Councils County Councils Metropolitan Councils London Borough Councils	High Security	£5m	2 Years
Gilts *	UK Government	Government Backed	20% of overall investments	10 Years
Bonds issued by multilateral development banks *	Non-UK	AAA or Government Guaranteed	20% of overall investments	10 Years
Other MMF's and Collective Investment Schemes *	Various	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m	No set maturity date

*Investments in Gilts, Bonds and Collective Investment Schemes will be considered following the advice of our Treasury Management Advisors, Arlingclose.

8.9 **Credit risk prudential Indicator**

8.10 The Council considers security, liquidity and yield, in that order, when making investment decisions.

8.11 Credit ratings remain an important element of assessing risk but they are not a sole feature in the Council's assessment of credit risk.

8.12 The Council also considers alternative assessments of credit strength and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings for financial institution (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns systemically important to the financial system
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms/potential support from well-resourced parent institutions
- Share Prices (where available)
- Macro-economic indicators
- Corporate developments, news, articles, market sentiment and momentum

8.13 In addition Arlingclose have developed the following matrix to score the credit risk of an authority's investment portfolio:

- Value weighted average credit risk score
- Value weighted average credit rating score
- Time weighted average credit risk score
- Time weighted average credit rating score

Scoring methodology:

- Value weighted average reflects the credit quality of investments according to the size of the deposit
- Time weighted average reflects the credit quality of investments according to the maturity of the deposit
- Credit quality is calculated as:
  -AAA = highest credit quality = 1
  - D = lowest credit quality = 15

The Council will aim for A- or higher credit rating, with a score of 7 or lower, to reflect an investment approach with its main focus on security within the proposed use of counterparties and investment limits set in this report.

8.14 Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts up to 12 months are included in Appendix C together with the limits in place at 11.01.2012.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

8.15 **Authority's Banker** – The Authority banks with the Co-operative Bank. At the current time it *does not* meet the minimum credit criteria of A- (or equivalent) long term and F1 or equivalent short-term. *Despite the credit rating being* below the Authority's minimum criteria the Co-operative Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

This policy has been implemented in the revised strategy for 11/12 approved by Cabinet on 29th November 2011.

9 Investment Strategy

9.1 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have led to a sovereign debt crisis in the Eurozone. An age of austerity has been used as an attempt to reduce debt levels with the IMF increasing funds available to aid Countries in financial difficulties. Despite a number of meetings of European Union member countries, the Eurozone crisis is far from being resolved and the final outcome is still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

9.2 With short-term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

9.3 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

9.4 Money Market Funds (MMFs) will be considered but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

9.5 The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates. The current counterparty list and investment strategy permits the Council to invest in:

- The Debt Management Agency Deposit Facility (DMO)
- Treasury Bills (T-Bills) issued by the UK Government
- Term deposits or business reserve accounts with UK banks or building societies systemically important to the UK economy
- UK nationalised/part nationalised banks
- Deposits with other local authorities
- Deposits with highly credit rated foreign banks, on the advice of Arlingclose (not currently used)
- Certificate of deposits with banks and building societies
- Bonds issued by multilateral development banks
- Gilts (Bonds issued by the UK government)
- UK Government Treasury Bills (T-Bills)
- AAA-rated Money Market Funds (MMF) with a Constant Net Asset Value (Constant NAV investing predominantly in government securities (not currently used)
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing in instruments issued primarily by financial institutions (not currently used)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and Si 2007 No 573

In addition to these available investments, new investment types proposed for 2012-13 to give greater flexibility within the risks identified in this report are:

- UK Government Gilts
- Commercial Paper
- Corporate Bonds

9.6 The Council needs to maintain flexibility in its investment options if it is to be able to respond quickly to changing circumstances, and the above list continues to outline a number of investment instruments available for use in the coming year. The inclusion of such instruments on the list will afford the Director for Corporate Services, acting under delegated authority in accordance with the Constitution and in consultation with the Treasury Management Board, the flexibility required to manage the investment portfolio on a day to day basis responding to market conditions without the need to seek prior Council approval for changes. Inclusion of an instrument on the list does not mean that the Council will necessarily make use of these during the year. New organisations and instruments would not be used without careful monitoring of the credit risk, and, liaison with our treasury advisors.

9.7 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office (DMADF) and UK Treasury Bills. The rates of interest from the DMADF/T-Bills are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.

9.8 The Council and its treasury advisors, Arlingclose, will continue to analyse and monitor the indicators set out in 8.12 and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

9.9 The Council will keep a minimum of £15m in liquid call accounts at all times to ensure cash is available to meet its liabilities.

9.10 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2012/13. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

9.11 To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income some longer-term investment options, set out below, may be considered during 2012/13 following the advice of our treasury advisors, Arlingclose.

- UK Government Gilts. Rates on offer have fallen sharply over the past year but these investments provide the highest level of security and may be considered if credit conditions worsen.
- Deposits with Local Authorities. These rates are lower than those available from Banks and Building Societies but provide additional security and may be used to secure investment returns.
- Supranational Bonds (bonds issued by multilateral development banks):- even at the lower yields likely to be in force, the return on these bonds would provide certainty of income against an outlook of low official interest rates.
- Pooled Funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments. These are investment products where the council would purchase units and receive a dividend payment. The capital growth of these investments varies over time and would only be considered as long-term investments. Such funds include Property and Equities. Due to fluctuations in the capital value with these type of investments there is a risk on disinvestment that the Council may not receive the full value of the original investment.

9.12 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No more than 30% of the Council's investment portfolio will be in investments exceeding 364 days at any one time.

Table 13 Prudential (Treasury) Indicator – upper limit for sums invested more than 364days

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2013/14 Estimate £m
	25	25	20	20	20

9.13 The Council's updated lending list for 2012/13 is included at Appendix D. These are the maximum limits proposed for 2012/13. Limits in place for each investment type and counterparty will depended on the economic circumstances and the credit risk. The list will continue to be reviewed and updated by the Director for Corporate Services during the year.

9.14 The target rate of return on new investment in 2012/13 is 0.80%. The current deposits include some longer-term deposits taken in 11-12 maturing in 12-13. This amounts to £20m of deposits at an average rate of 1.75%. Taking these deposits into account the average rate forecast for 2012/13 is 0.90%. The investment interest included in the 2012/13 budget is £0.503m. This allows for a continued strategy of internal borrowing and the use of call accounts.

9.15 The benchmark to be used for the Council's investment returns will be the daily average 7- day London Interbank Bid rate (LIBID).

10. Investments defined as Capital Expenditure

10.1 The acquisition of share capital or loan capital in any body corporate, a loan or grant or financial assistance by the Council to another body for capital expenditure, and certain other types of investment are defined as capital expenditure under the relevant regulations.

10.2 The Council's policy is to not use any investment which will be deemed capital expenditure.

11. Balanced Budget Requirement

11.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget. The proposed budget for 2012/13 is set out in the 2012/13 budget report.

12. Annual MRP Statement

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

12.2 The four MRP options available are:

Option 1: Regulatory Method – this method replicates the position that would have existed under the previous regulatory environment. MRP is charged at 4% of the Authority's underlying need to borrow for capital purposes; the Capital financing Requirement (CFR). The formula includes an item known as "Adjustment A" which was intended to achieve neutrality between the CFR and the former Credit Ceiling which was used to calculate the MRP prior to the introduction of the Prudential System on 1st April 2004.

Option 2: CFR Method – This method simplifies the calculation of MRP by basing the charge solely on the Authority's CFR but excludes the technical adjustments in Option 1, resulting in a higher charge using this method. The annual MRP is set at 4% of the non-housing CFR at the end of the preceding financial year.

Option 3: Asset Life Method – Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated by either of the following methods.

1. MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.
2. The estimated life of the asset will be determined in the year that MRP commences and will not be subsequently revised. However additional repayments can be made in any year which will reduce the level of payments in subsequent years.
3. If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life on the land will be treated as equal to the structure, where this would exceed 50 years.

Option 4: Depreciation Method – The depreciation method is similar to that under option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practice to be charged to the Income and Expenditure account.

12.3 MRP in 2012/13: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

12.4 Under the regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP in respect of that financial year and submit it to the Full Council. The proposed policy for 2012/13 is as follows:

<u>Supported Borrowing</u>

For borrowing supported by Revenue Support Grant the Council will continue to use the regulatory method (Option 1).

<u>Unsupported Borrowing</u>

For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual instalments over the life of the asset (Option 3).

Capitalisation Directions
For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made in equal annual instalments over 20 years in line with DCLG guidance (Option 3).

PFI/Leases
MRP in respect of PFI and leases brought on to the Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

MRP will commence in the financial year following the one in which the expenditure is incurred, except for expenditure funded by unsupported borrowing where the project is not complete at 31st March 2013 (classified as under construction). MRP will be deferred until the construction is complete and operational with the charge to be made in the year following completion.

13. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

13.1 In accordance with the recommendations of the Treasury Management Code, the Council's Audit Committee will be responsible for the scrutiny of treasury management activities and practices.

13.2 The Director for Corporate Services will report to the Audit Committee and full Council on treasury management activity and performance at least twice a year against the strategy approved for the year (being a mid year review and an end of year review).

13.3 The Council is required to produce an outturn report on its treasury activity no later than 30 September after the financial year end.

13.4 In addition treasury management activity will continue to be reported as part of the quarterly budget and performance reports to Cabinet and as part of the budget outturn report.

14. Other Items

14.1 Training

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

Members of the Audit Committee received training in Treasury Management in January 2010. Council Officers provided refresher training for members on 10 January 2011. Council Officers will organise additional training for members and staff with Arlingclose and any other suitable organisation to ensure relevant needs are met.

14.2 Investment Consultants

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

- whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- how the quality of any such service is controlled.

The contract with our advisors ended on 31st December 2011. In order to retain an advisory service in this time of uncertainty Council Officers arranged a tender process from which two responses were received. Following interview and scoring Arlingclose have been re-appointed as our Treasury Management advisors until 31st December 2012 with the option to roll over yearly to 31st December 2014. Arlingclose attend the Council Offices and meet with the Treasury Management Board at least quarterly to discuss the Council's borrowing and investment strategies and update on any new developments. The Council also receives regular updates concerning its counterparty institutions, including any new institutions that may be added to the counterparty list.

During 2010/11 Arlingclose developed a set of benchmarking criteria which enables the Council to compare its investment performance against other Unitary Council clients of Arlingclose. This is used to monitor/benchmark credit risk as set out in this report.

15. Recommendations

15.1 To request the Director for Corporate Services, acting under delegated authority in accordance with the Constitution, to keep the lending list under review and update the list during the year as dictated by market circumstances.

15.2 To recommend Full Council approve:

(a) The Treasury Management Policy Statement (appendix A to this report)

(b) The Treasury Management Strategy Statement for 2012/13

(c) The Investment Strategy for 2012/13 set out in Sections 8 and 9 of the report including the use of Specified and Non-Specified Investments

(d) The Lending Organisations and Counterparty limits set out in Appendix D

(e) The Prudential Indicators set out in the report covering the revised indicators/limits for 2011/12 and the forecasts/limits for 2012/13 to 2014/15

(f) The Authorised Borrowing limits of £309m, £284m And £274m for the period 2012/13 to 2014/15

(g) The Operational Boundary of £279m, £268m and £259m for 2012/13 to 2014/15

(h) The MRP policy for 2012/13