Appendix A Departmental Net Budgets 2013/14

Directorate / Service	13/14 Budget £000s
Chief Executive's Office	1,259
Departmental Management	732
Executive Office Budget Saving	0
Executive Office	**1,991**
Capital Financing	9,458
Other Corporate Items	(426)
Corporate Items	**9,032**
Finance, Effic, Tech & Assets	16,822
Democracy & Governance	5,030
Customer Services	4,822
Human Resources & OD	2,942
Departmental Management	267
Corporate Serv budget savings	0
Corporate Services	**29,883**
Childrens Social Care	26,922
Jt Comm & Adult Social Care	71,447
Education, Learning & Family S	18,203
Homes & Communities	10,306
Programmes Director projects	2,518
Management and Support	353
People Directorate	**129,749**
Economic Development	1,749
Transport & Infrastructure	14,034
Planning	1,593
Environmental Services	24,961
Strategic Waste Programme	305
Business Support	(1,031)
Management and Support	297
Place Budget Savings	0
Place Directorate	**41,908**
Total	**212,563**

Funding Sources

Report approved Full Council 25 Jan - PCC rates retained per NNDR1	**42,134**
From DCLG Settlement - Central Government "top-up"	**8,819**
From DCLG Settlement - Revenue Support grant (RSG)	**74,204**
From DCLG Settlement - Freeze Grant 2011/12	**2,398**
Council Tax after 2% increase	**85,008**
	212,563

Footnote: The funding for 2013/14 is now showing £212.563m compared to the 2012/13 figure of £203.765m
This reflects the net movement due to 1] funding reductions within core RSG and 2] grants which were previously specific grants being subsumed into the 2013/14 Formula Grant

APPENDIX B CAPITAL PROGRAMME

Details	2012-13 Latest Forecast	2013-14 Latest Forecast	2014-15 Latest Forecast	2015-16 Latest Forecast	TOTAL PROGRAMME 2012-16
	£000	£000	£000	£000	£000
CORPORATE SERVICES					
LIBRARIES:					
North Prospect Library	0	75	0	0	**75**
INFORMATION SYSTEMS:					
ICT- Compliance	0	107	0	0	**107**
Enterprise Applications	328	0	0	0	**328**
Data Centre Fit Out - Windsor House	1,497	0	0	0	**1,497**
Corporate Support Transformation (HR & OD)	354	1,200	0	0	**1,554**
Investment in Customer Transformation and ICT core infrastructure	0	2,501	1,427	485	**4,413**
Other	75	0	0	0	**75**
CORPORATE PROPERTY CAPITAL (INC. ACCOM STRATEGY):					
Accommodation strategy Phase 1 Offices:	5,235	0	0	0	**5,235**
Accommodation strategy Phase 2 Corporate Estate:	14	303	0	0	**317**
Stonehouse Town Wall	17	236	0	0	**253**
CORPORATE PROPERTY - SUSTAINABLE ENERGY					
PV Solar Panels - Pilot Project	168	0	0	0	**168**
PV Solar Panels - Council Properties	50	834	0	0	**884**
Boiler Replacement Programme for Council Properties	0	785	0	0	**785**
TOTAL CORPORATE SERVICES DIRECTORATE	**7,738**	**6,041**	**1,427**	**485**	**15,691**
PLACE					
ENVIRONMENTAL SERVICES CAPITAL PROGRAMME:					
Vehicle Replacement Ph. 1 Refuse Vehicle	558	0	0	0	**558**
Plant Repl Ph 3 Plant/Eqmt - Street/Park	200	1,507	0	0	**1,707**
Phase 2 Minibus replacement	0	810	170	0	**980**
Mercury abatement equipment in Crematoria	0	1,093	0	0	**1,093**
Refurbishment of Armada Way Toilets	100	0	0	0	**100**
West Hoe Pier	546	442	0	0	**988**
Bond Street Playing fields (Southway Community Football Hub)	2	335	0	0	**337**
Other	26	11	0	0	**37**
Retained waste Chelson Meadow restoration:					
Chelson Meadow Capping phase 2	435	0	0	0	**435**
Leachate treatment & storage upgrade	791	0	0	0	**791**
MRF Upgrade	0	3,000	1,000	0	**4,000**
SECTION 106 Environmental Services Projects:	146	91	0	0	**237**
LOCAL TRANSPORT PLAN:					
Balance of LTP programme SCP funding Allocation	40	217	3,574	4,114	**7,945**
Integrated transport system (ITS)	50	100	0	0	**150**
Plymouth Station Phase 3	107	323	0	0	**430**
LSTF2 Access to stations	118	47	280	0	**445**
Bus Punctuality improvement plan (BPIP)	264	264	0	0	**528**
Strategic Cycle Network (SCN) & safer routes to school	945	0	0	0	**945**
SCN - Central Park to Crownhill Road	5	729	0	0	**734**
Digital speed cameras	0	261	0	0	**261**
Safer sustainable neighbourhoods	318	576	0	0	**894**
Mayflower East Car park	110	0	0	0	**110**
Visitor plan - wayfinding & pedestrian access	324	0	0	0	**324**
Other	78	122	30	0	**230**
CAPITALISED MAINTENANCE:					
Annual Structural Maintenance:	715	265	0	0	**980**
Highway maintenance & essential engineering:	2,055	2,053	0	0	**4,108**
OTHER TRANSPORT PROJECTS NON LTP:					
Access to the Life Centre	200	0	0	0	**200**
Strategic Road Network Public Transport initiatives	364	0	0	0	**364**
East End Community Transport Improvement Scheme	632	0	0	0	**632**
Street Lighting Bulb Replacement	0	0	7,065	4,515	**11,580**
Other	52	27	0	0	**79**
SECTION 106 Transport Projects:	184	552	0	0	**736**
Delivery of rights of way improvement plan					
Plymouth Connect LSTF scheme:					
- Laira Rail Bridge	92	1,157	1,893	0	**3,142**
- Friary Park Path	0	161	0	0	**161**
- Finnigan Road Junction	355	0	0	0	**355**
- Exeter St - University Cycle Path	72	129	0	0	**201**
- Way finding signage	4	140	0	0	**144**
Northern Corridor Major Public Transport (George Junction)	107	0	0	0	**107**
Flood defence:	66	0	0	0	**66**
ECONOMIC DEVELOPMENT PROJECTS:					
City Market electrical refurbishment	218	0	0	0	**218**
Theatre Royal regeneration	0	1,995	0	0	**1,995**
The History Centre	2	100	1,806	0	**1,908**
Investment Fund	0	4,630	9,404	5,966	**20,000**
Coastal communities	121	872	333	0	**1,326**
Other	29	6	0	0	**35**
JOINT COMMITTEE'S WITH CORNWALL COUNCIL:					
- Purchase of Marquee	60	0	0	0	**60**
PLANNING:					
Saltram Countryside Park	65	494	0	0	**559**
Chelson Meadow landscaping	0	92	300	0	**392**
Plymouth Natural Networks	5	0	100	350	**455**
Royal William Yard Steps	237	0	0	0	**237**
Home Energy	34	129	0	0	**163**
Other	148	110	0	0	**258**
TOTAL PLACE DIRECTORATE	**10,980**	**22,840**	**25,955**	**14,945**	**74,720**

Details	2012-13 Latest Forecast	2013-14 Latest Forecast	2014-15 Latest Forecast	2015-16 Latest Forecast	TOTAL PROGRAMME 2012-16
PEOPLE					
Children's Social Care					
Autistic Spectrum Disorder (ASD) and Complex Need	513	0	0	0	**513**
Other	122	0	0	0	**122**
Joint commisioning and Adult Social Care					
ASC Grant - Major Adaptations	5	66	50	0	**121**
Adults' Personal Social Services Capital Grant (DoH) 11-12, 12-13	0	141	553	0	**694**
CareFirst	445	170	353	0	**968**
Extra Care Housing Support (Gap Funding)	200	500	0	0	**700**
Improving Care Home Environments	0	305	0	0	**305**
Homes and Communities					
Disabled Facilities (incl Care & Repair works)	1,837	1,530	893	0	**4,260**
Home improvement assistance	303	280	0	0	**583**
Gypsy and Traveller Site - Broadley Park	20	161	609	0	**790**
Programmes Director Projects					
Plymouth Life Centre - Ice Provision	1,200	800	0	0	**2,000**
Plymouth Life Centre - Build - Constructions	1,669	0	0	0	**1,669**
Plymouth Life Centre - FF&E	218	0	0	0	**218**
BSF					
Estover CC - Campus/Replacement College	3,512	0	0	0	**3,512**
Downham School Demolition	75	0	0	0	**75**
BASIC NEED- Nursery Places					
2 Year Olds Nursery Places	100	1,400	250	0	**1,750**
BASIC NEED- Wave 1					
Increasing Capacity in Primary Schools	0	0	2,062	0	**2,062**
Weston Mill- Basic Need	49	120	0	0	**169**
Riverside - Basic Need	1,072	1,081	0	0	**2,153**
Mount Wise - Basic Need	998	0	0	0	**998**
Ernesettle - Basic Need	614	0	0	0	**614**
Prince Rock - Basic Need	1,165	0	0	0	**1,165**
BASIC NEED- Wave 2					
Salisbury Road - Basic Need	850	983	0	0	**1,833**
St Peters CE - Basic Need	170	0	0	0	**170**
St Josephs - Basic Need	1,079	728	0	0	**1,807**
Stoke Damerel Primary - Basic Need	505	0	0	854	**1,359**
Other	97	0	0	0	**97**
BASIC NEED- Wave 3					
Pilgrim - Basic Need	55	1,429	966	0	**2,450**
Lipson Vale - Basic Need	0	72	0	0	**72**
BASIC NEED- Wave 4	0	23	0	0	**23**
ACADEMIES					
MAP	4,862	4,640	0	0	**9,502**
ASAP	3,948	7,470	158	0	**11,576**
MAP - Free School Places	307	3,559	0	0	**3,866**
UTC	3,771	4,129	0	0	**7,900**
DEVELOPMENT WORKS					
Boringdon - Replacement of temporary classrooms	1,354	0	0	0	**1,354**
Other	67	40	0	0	**107**
CONDITION WORKS					
Knowle Primary - Boiler and Condition Works	100	1,524	900	0	**2,524**
Condition bid programme	0	450	450	450	**1,350**
Woodfield - Replacement	50	260	0	0	**310**
Holy Cross RC (VA)- MUGA in Beaumont Park	0	177	0	0	**177**
Other	389	92	0	0	**481**
S106 PROJECTS					
Lipson CC - S106 project	123	0	0	0	**123**
Other	155	0	0	0	**155**
ACCESS	5	17	0	0	**22**
SCHOOL MEALS					
St Boniface - Exceptional TCF for practical cooking spaces	264	0	0	0	**264**
Other	57	0	0	0	**57**
SEN AND INCLUSION	176	0	0	0	**176**
HARNESSING TECHNOLOGY	8	0	0	0	**8**
DEVOLVED CAPITAL FORMULA					
Formula Devolved Capital	0	624	533	0	**1,157**
Other	677	289	0	0	**966**
DEVOLVED CAPITAL PROJECTS	442	75	0	0	**517**
TOTAL PEOPLE DIRECTORATE	**33,628**	**33,135**	**7,777**	**1,304**	**75,844**
TOTAL CAPITAL PROGRAMME	**52,346**	**62,016**	**35,159**	**16,734**	**166,255**

Appendix C

Treasury Management Strategy Statement and Annual Investment Strategy 2013/14

1. Introduction/Background

1.1 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 advisers, 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.

1.2 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.

1.3 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.

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

1.5 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 two years in fixed term deposits with organisations meeting the appropriate credit quality, with consideration to longer-term investments in Certificate of Deposits (CD's), Registered Providers (RP's), Pooled Funds and Government/Corporate Bonds. Further details are outlined in the report.

1.6 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 2013/14 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.

1.7 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.

1.8 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."

1.9 The Council's current Treasury Management Policy Statement is set out in Appendix A. This was approved by Council on 27th February 2012. This policy remains unchanged for 2013-14 and is provided for information only. 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.

1.10 Each year, Officers work with the Council's Treasury Management advisers, 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 Committee for scrutiny, prior to submission to Cabinet and Full Council for final approval.

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

- Revisions to Treasury Management Strategy and Prudential Indicators for 2012/13;
- Treasury Management Strategy for 2013/14;
- Annual Investment Strategy for 2013/14 including the use of Specified and Non-Specified investments;
- Prudential Indicators for 2013/14, 2014/15 and 2015/16;
- MRP Statement for 2013/14; and
- Counterparty List applicable from 1 April 2013

1.12 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.

1.13 The Authority has borrowed and invested substantial sums of money and therefore has potential large exposures to financial risk including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's Treasury Management Strategy.

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. Policy on 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 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

3.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

3.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

3.5 The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

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 2012/13 to 2015/16. This is subject to approval by Cabinet on 12th February 2013. 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 25th February 2013.

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

	2012/13 Estimate £m	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2105/16 Estimate £m**
Total CFR	274.214	278.983	269.763	260.414
Less: Existing profile of borrowing Other Long Term Liabilities	231.403 41.485	191.403 39.981	191.403 38.456	191.403 36.923
Cumulative Maximum External Borrowing Requirement	**1.326**	**47.599**	**39.904**	**32.088**
Internal Balances	**58.232**	**52.296**	**48.520**	**43.030**
Cumulative Net Borrowing Requirement/(Investments)	**(56.906)**	**(4.697)**	**(8.616)**	**(10.942)**

4.3 The actual and estimated treasury position for 31/3/2013 and 31/3/2014 is as follows:
Table 2

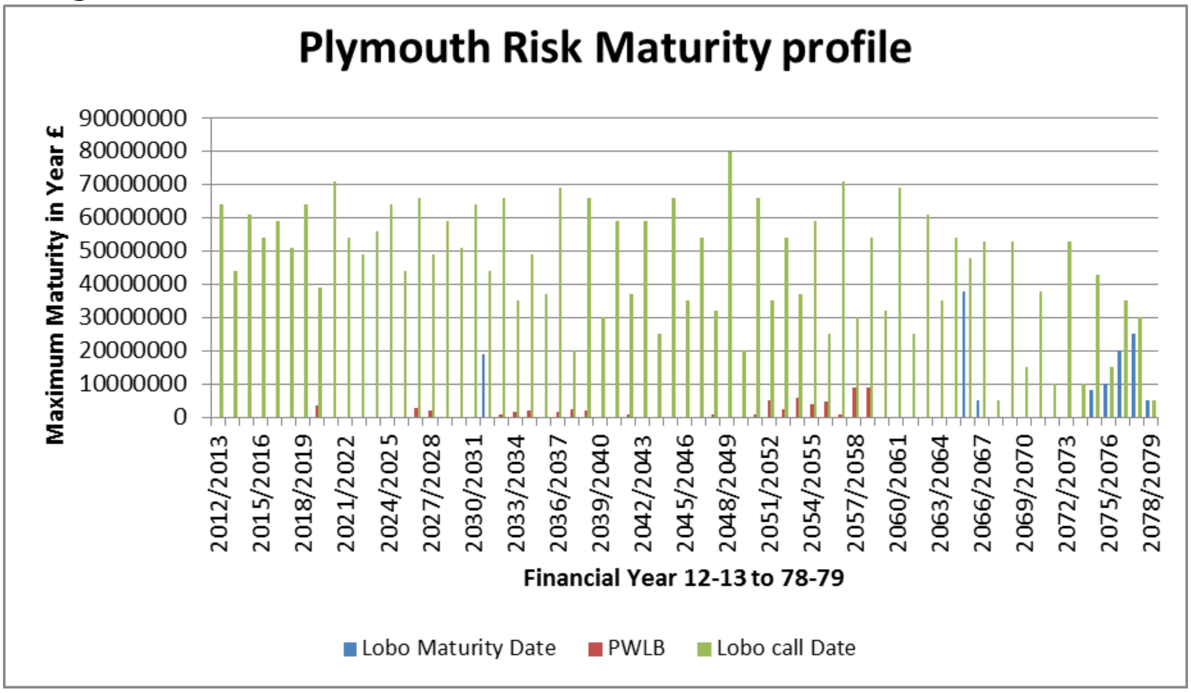
	08/01/2013 Actual £m	Ave %	31/3/2013 Estimate £m	Ave %	31/3/2014 Estimate £m
External Borrowing					
Fixed Rate PWLB	61.315	5.40	61.315	5.40	61.315
Fixed Rate – Lobo	48.000	4.24	86.000	4.38	69.000
Variable Rate – Lobo	82.000	4.53	44.000	4.50	61.000
Temporary Borrowing	43.500	0.27	40.000	0.27	47.000
Fixed Rate Bonds	0.088	1.08	0.088	1.08	0.088
Sub Total External Borrowing	234.903	3.91	231.403	3.96	239.403
PFI	31.017	8.73	30.246	8.73	29.440
Finance Leases	2.584		2.190		1.954
Tamar Bridge & Torpoint Ferry	9.510		9.049		8.588
Total External Debt	**278.014**		**272.888**		**278.384**
Total Investments	**117.708**	**0.90**	**82.292**	**0.90**	**80.000**

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 an increase in short-term borrowing and a reduction in internal borrowing due to the improvement in credit conditions. This is subject to variation based on changes in forecast cashflow, the availability of appropriate loans and variations to the borrowing requirement for the Capital Programme. Any borrowing will be maintained within the Council's Capital Financing Requirement (CFR). If credit conditions worsen the Council will revert to the use of internal funds reducing the level of both external debt and investments at 31st March 2013 and 31st March 2014.

4.6 Debt Maturity
The following graph shows the maturity profile of the Council's long-term 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.

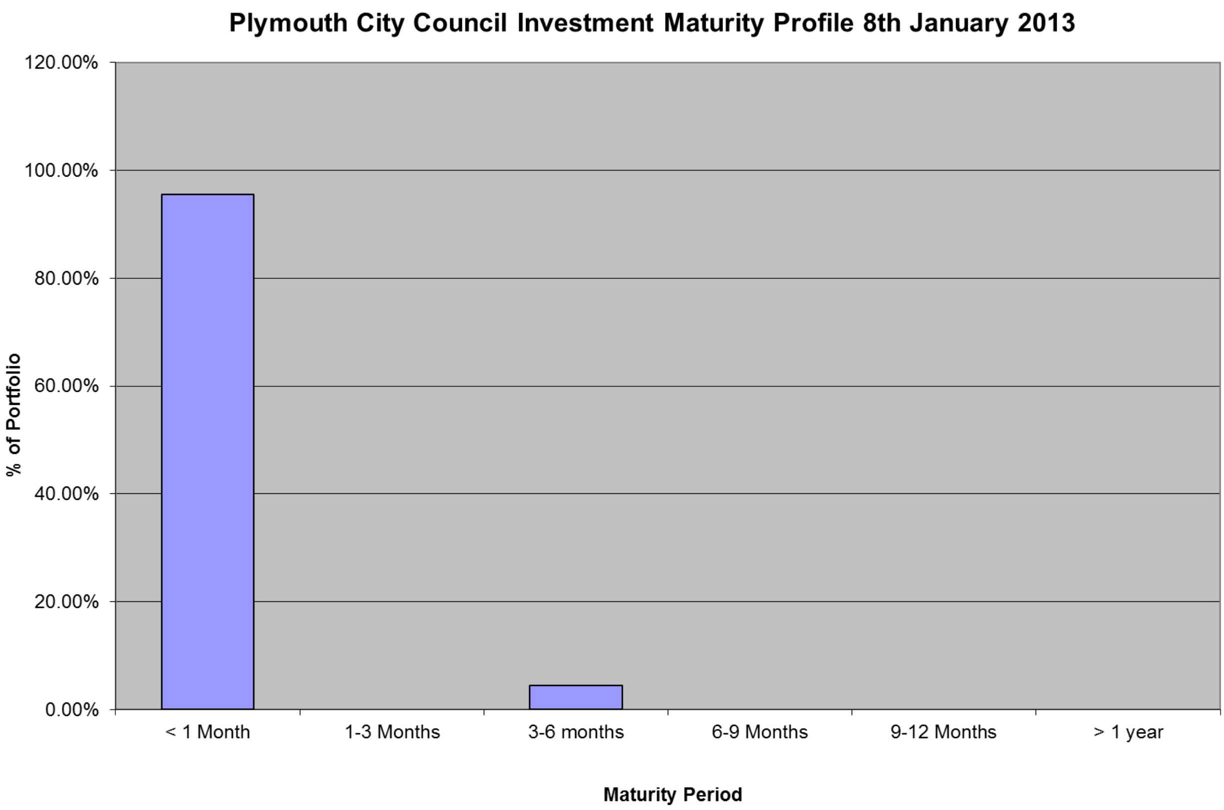
4.8 The estimate for interest payable during 2013/14, as included in the revenue budget, is £9.060m.

4.9 **<u>Investments</u>**

The Council's investments at 8th January 2013 are £117.708m, estimated to reduce to £82.292m at the end of the year based on forecast cashflow requirements and the continued strategy of taking short-term borrowing to meet the Council's capital expenditure financing requirement. The actual position at year end will depend on the continuation of this strategy subject to the credit conditions for the rest of the financial year and any variations in cashflow.

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

Figure 2



4.10 The Council's investments at 8th January 2013 were as follows:

Table 3

Counterparty	**Total**
	£m
Iceland	4.133
Banco Santander	
Santander UK	29.500
Lloyds Banking Group	
Bank of Scotland	24.350
Barclays	29.900
Royal Bank of Scotland (RBS)	29.825
Total	**117.708**

4.11 In terms of risk management, with the exception of the £4.133m 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.

4.12 The estimate for interest receipts for 2013/14 as included in the revenue budget proposals is £0.583m.

5. Interest Rate Forecasts

5.1 The Arlingclose interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. Until there is a credible resolution of the problems that stalk the Eurozone – and that resolution requires full-scale fiscal union which faces many significant political hurdles – then the UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.

5.2 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix B. The Authority will reappraise its strategies 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 2013/14 budget is £8.101m.

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

Table 4 Prudential Indicator- CFR

Capital Financing Requirement	31/3/2013 Approved £m	31/3/2013 Revised £m	31/3/2014 Estimate £m	31/3/2015 Estimate £m	31/3/2016 Estimate £m
Total CFR	**260.698**	**274.214**	**278.983**	**269.763**	**260.414**

6.2.1 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.

6.3 Prudential Indicator - Gross Debt and the Capital Financing Requirement

6.3.1 This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

6.3.2 If in any of these years there is a reduction in the Capital Financing Requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

6.3.3 The Director for Corporate Services reports that the Authority had no difficulty meeting this requirement in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

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. The estimated borrowing requirement forecast to cover the capital programme over the next 3 years based on the current monitoring positions is:

	£m
2013/14	14.518
2014/15	1.598
2015/16	1.686

6.5 Actual borrowing may be greater or less than the CFR but, in accordance with the Prudential Code, the Council will ensure that 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. It is currently forecast that the Council will have no borrowing in advance at 1 April 2013.

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 term period are shown in table 5.

Table 5 Prudential Indicator – Authorised Limit for External Debt

Authorised Limit for External Debt	2012/13 Approved £m	2012/13 Revised £m	2013/14 Limit £m	2014/15 Limit £m	2015/16 Limit £m
Borrowing	275	259	**270**	262	248
Other Long-term Liabilities	34	42	**40**	39	37
Total	**309**	**301**	**310**	**301**	**285**

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	2012/13 Approved £m	2012/13 Revised £m	2013/14 Limit £m	2014/15 Limit £m	2015/16 Limit £m
Borrowing	245	237	**249**	241	233
Other Long-term Liabilities	34	42	**40**	39	37
Total	**279**	**279**	**289**	**280**	**270**

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 2014/15 and 2015/16 with MRP greater than current forecast borrowing to cover the capital programme.

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. The revised limit for 2012-13 reflects an increase in other long-term liabilities as a result of 50% of the debt of the Tamar Bridge and Torpoint Ferry Joint Committee being brought on to the Council's balance sheet in accordance with accounting requirements.

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 2015/16, 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 *	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Total	**52.121**	**53.691**	**68.922**	**23.037**	**8.719**

The capital expenditure is expected to be financed as follows:

Table 8

Capital Financing *	**2012/13 Approved £m**	**2012/13 Revised £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Capital Receipts	9.955	**6.775**	6.454	5.606	-
Grants and Contributions	33.578	**36.655**	44.264	14.873	7.033
Section 106/Tariff	956	**0.801**	0.750	0.750	-
Revenue/Fund	1.390	**3.188**	2.936	0.210	-
Total Financing	**45.879**	**47.419**	**54.404**	**21.438**	**7.033**
Borrowing:					
Supported Borrowing	0.047	**0.107**	-	-	-
Unsupported Borrowing	6.195	**6.165**	14.518	1.598	1.686
Total Funding	**6.242**	**6.273**	**14.518**	**1.598**	**1.686**
Total Financing and Funding	**52.121**	**53.691**	**68.922**	**23.037**	**8.719**

*The 2012/13 approved figures are as per the 2012/13 budget book with the 2012/13 revised and 2013/14 to 2015/16 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 Capital Investment Decisions

Incremental Impact of Capital Investment Decisions	**2012/13 Approved £**	**2012/13 Revised £**	**2013/14 Estimate £**	**2014/15 Estimate £**	**2015/16 Estimate £**
Increase in Band D Council Tax	0.92	0.71	**1.17**	11.68	12.89

6.13 The impact on the Council Tax in 2013/14 and future years reflect the cumulative cost of financing the approved capital programme in 2013/14 to 2015/16.

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	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
	8.56	7.91	**7.78**	8.78	9.15

7 The Borrowing Strategy for 2013/14

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. The cost of carry is likely to be an issue until 2016 and beyond. As borrowing is often for longer dated periods (anything up to 50 years), the cost of carry needs to be considered 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 As indicated in Table 1 in Section 4 of this report, the Authority has a forecast gross borrowing requirement of £47.599m in 2013/14 but has sufficient balances to avoid the need for external borrowing. However the recent strategy has been to borrow short-term funding from other Local Authorities up to the Capital Financing Requirement (CFR) allowing internal balances to be externally invested. Subject to credit conditions this strategy will be continued in 2013/14. Should credit conditions adversely change, internal borrowing will be used to reduce counterparty and credit risk. By essentially lending its own surplus funds to itself, the Authority is able to reduce overall treasury risk by reducing the level of its external investment balances. The Council will adopt a flexible approach to borrowing in consultation with its treasury management advisers, 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

7.4 Borrowing options available to the Council are:

- Internal
- Public Works Loan Board (PWLB)
- Local authorities
- European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria)
- Commercial banks
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

7.5 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.

7.6 The Authority has £130m exposure to LOBO loans (Lender's Option Borrower's Option) of which £86m of these can be "called" within 2013/14. 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.

7.7 **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:

- Reduce investment balance and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- 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 advisers.

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

7.9 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

	2012/13 Approved %	**2012/13 Revised** %	**2013/14 Limit** %	**2014/15 Limit** %	**2015/16 Limit** %
Upper Limit for Fixed Interest Rate Exposure	200	200	**200**	200	200
Upper Limit for Variable Interest Rate Exposure	85	50	**50**	50	50

7.10 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 2012/13** %	**Upper Limit for 2013/14** %	**Lower Limit for 2013/14** %
under 12 months	50	**40**	**0**
12 months and within 24 months	60	**60**	**0**
24 months and within 5 years	40	**40**	**0**
5 years and within 10 years	25	**25**	**0**
10 years and within 20 years	30	**25**	**0**
20 years and within 30 years	30	**25**	**0**
30 years and within 40 years	25	**30**	**0**
40 years and within 50 years	30	**35**	**0**
50 years and above	25	**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.

ANNUAL INVESTMENT STRATEGY 2013-14

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 The Authority and its advisers remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.

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	✓	✓
Investments with Registered Providers	✓	✓
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 Some changes have been implemented to the investment strategy for 2013/14 in response to changes in the CLG Guidance and improving conditions in financial markets. Registered Providers of Social Housing (RPs) have been included in specified and non-specified investments. The background behind the inclusion of this investment possibility is as follows:-

Over recent years RPs have met their commitments to provide social houses by financing their cashflow and capital requirements through bank loans and credit lines. Recently the drop in this lending has increased pressure on RP's to maintain early development cashflow and maintain the flow of affordable homes. They are looking for cash in the 1-3 year horizon, particularly to manage cashflow, as well as longer term funding secured on property. Approximately 20 RPs have published credit ratings, principally from Moody's. 19 are in the Aa category and 1 in the A category. Rated RP's are typically the larger bodies who seek funding from the capital markets. Non-rated RP's operate within the strong regulatory framework as rated bodies, but they may use slightly different funding structures.

A high proportion of RP's revenue is derived from government subsidies which aids revenue stability. The steady rise in social housing letting will also continue to drive revenue. There is a perceived high likelihood of government support. Moody's view is a "very high likelihood that the UK government would act to prevent a default". Moody's also states the following: "The very high level of extraordinary support factored into the rating reflects the wide-ranging powers of redress available to the regulator in cases of financial distress, with an enforced merger or a transfer of engagements being possible. Recent history has shown that the UK government is willing to support the sector and it has, in the past, provided a guarantee for the housing association's overdraft facility.

In assessing a RP's suitability for investment a number of indicators will need to be considered. Debt/revenue ratios and business plan forecasts will be reviewed. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to any investments being made.

The principal amendments incorporated in the Investment Strategy for 2013-14 are in relation to the individual institutions with which the Authority is prepared to invest, an increase to the maturity limits for institutions on the Council's lending list and the maximum investments with Non-UK institutions. The Director for Corporate Services has delegated authority to manage counterparty limits within the maximum maturity limits set out within the 2013-14 investment strategy.

8.6 The financial institution credit rating limits in place and proposed for 13-14 is a minimum long-term rating of A- or equivalent with a minimum long-term sovereign rating for non UK countries of AA+ or equivalent. The minimum credit rating required to be met from all three credit rating agencies are:

Fitch Long-Term (LT) A-
Moody's Long-Term (LT) A3
Standard & Poor's Long-Term (LT) A-

8.7 In response to the improvement in credit conditions it is proposed to increase the maturity limits for fixed term deposits with approved banks and building societies from 1 to 2 years and deposits in negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds be limited to 5 years. It is proposed to increase the counterparty limit for Non-UK banks from £5m to £10m while keeping the limits for approved UK banks and Building Societies at £30m. It is also proposed to increase the limits for investments with other Local Authorities from £5m to £10m.

To enable the Council to take advantage of alternative investment options the limit on the use of Collective Investment Schemes is proposed to be increased from £10m to £20m and Registered Providers have been added with a limit of 10% of the total investment portfolio.

8.8 The following banks have been added to the list of available Counterparties for 13-14 on the advice of the authority's treasury management advisers to increase options and flexibility:

- Pohjola Bank – Finland. Long-term ratings: Fitch A+, Moody's Aa3, S&P AA-
- DBS Bank Ltd – Singapore. Long-term rating: Fitch AA-, Moody's Aa1, S&P AA-
- United Overseas Bank – Singapore. Long-term rating: Fitch AA-, Moody's Aa1, S&P AA-
- Oversea-Chinese Banking Corp – Singapore. Long-term rating: Fitch AA-, Moody's Aa1, S&P AA-

8.9 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	£10m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- Moody's LT A3	£30m	12 Months

		S&P LT A-		
Term Deposits / CD's / Call Accounts (including callable deposits)	Non-UK Banks	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A- In select countries with a minimum Sovereign Rating of AA+	£10m	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
Investments with Register Providers	UK Social Housing providers	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-Regulated by	10% of total investments	12 Months
Corporate Bonds	UK Companies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	10% of total Investment	12 Months
Commercial Paper *	UK Companies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	10% of total Investments	9 Months
Money Market Funds	CNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	AAA	20% of total investments Max £5m per fund limited to 0.5% of net asset value of MMF 2% of net asset value for Government MMF's	Call
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	£20m	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 following sets out limits for investments 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 2013/14 are detailed below.

Non-Specified Investments				
Investment		Minimum Security / Credit Rating	Maximum Amount	Maximum Period
Term deposits with banks [1] which meet the specific investment criteria	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	£10m	2 Years
Term deposits with banks [1] which meet the specific investment criteria.	Non-UK Banks	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A- In select countries with a minimum Sovereign Rating of AA+	£5m	2 Years
Term Deposits	UK Local Authorities: Unitary Councils County Councils Metropolitan Councils London Borough Councils	High Security	£10m	2 Years
CD's and other negotiable [2] instruments with banks and building societies which meet the specified investment criteria	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	£10m	5 Years
CD's and other negotiable [2] instruments with banks which meet the specified investment criteria	Non-UK Banks	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A- In select countries with a minimum Sovereign Rating of AA+	£5m	5 Years
Investments with banks and building societies which do not meet the specified investment criteria (on advice from Treasury Management Advisers and authority from Section 151 Officer)	UK Banks / Building Societies		£5m	3 months

Investments with Registered Providers	UK Social Housing providers	Regulated by Homes and Communities Agency	10% of total investments	10 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	£20m	No set maturity date

* Investments in Gilts, Bonds and Collective Investment Schemes will be considered following the advice of the authority's treasury management advisers, Arlingclose.

[1] 2 years is the maximum proposed duration for term deposits and illiquid investments (those without a secondary market), although in practice the Authority may be investing on a shorter term basis depending on operational advice of the Authority's treasury management advisers.

[2] 5 years is the maximum proposed duration for negotiable instruments, with approved banks and building societies, such as certificate of deposits, although in practice the Authority may be investing for shorter periods depending on the operational advice of the authority's treasury management advisers.

The Authority will have a maximum of 30% of its investment portfolio in non-specified investments.

8.10 **Credit risk Prudential Indicator**

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

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

8.13 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);
- Sovereign support mechanisms/potential support from well resourced parent institutions;
- Credit Default Swaps (where quoted);
- Share prices (where available);
- Economic fundamentals (for example Net Debt as a percentage of GDP);
- Macro-economic indicators;
- Corporate developments, news, articles, market sentiment and momentum;
- Subjective overlay.

8.14 The only indicators with prescriptive values remain credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

8.15 With this is in mind 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.

8.16 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 up to 2 years and Certificates of Deposit (CDs) up to 5 years are included in Appendix C together with the limits in place at 8th January 2013.

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.

8.17 **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.

9 Investment Strategy

9.1 With short-term interest rates low for some time, 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.

9.2 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.

9.3 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. In the case of Government MMFs, the Council will ensure exposure to each fund does not exceed 2% of the net asset value of the fund.

9.4 In order to diversify the portfolio from pure cash investments the use of Collective Investment Schemes will be considered as an alternative. Investment Funds such as Property, Equity and Bonds will be considered to add value and spread the risk of the Council's investments over a variety of asset classes.

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
- 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)
- Commercial Paper
- Corporate Bonds
- AAA-rated Money Market Funds (MMF) with a Constant Net Asset Value (Constant NAV investing predominantly in government securities)
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing in instruments issued primarily by financial institutions
- 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 2013-14 to give greater flexibility within the risks identified in this report are:

- Registered Providers.

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 advisers.

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 advisers, Arlingclose, will continue to analyse and monitor the indicators set out in 8.13 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 2013/14. 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/or to provide certainty of income some longer-term investment options, set out below, may be considered during 2013/14 following the advice of our treasury advisers, Arlingclose.

- Longer-term deposits/CD's with Banks and Building Societies. Any deposits will be based on credit conditions and the rates available, with priority given to the security of funds.
- 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, Bonds 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 at the time the investment is withdrawn.
- Registered providers – These investments are likely to attract very competitive interest rates, with the Council in effect replacing banks as providers of short-term and long-term funding. Further investigation would be required to assess the security of this sector before any investment is made.

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	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2013/14 Estimate £m
	20	20	30	30	30

9.13 The Council's updated lending list for 2013/14 is included at Appendix D. These are the maximum limits proposed for 2013/14. Limits in place for each investment type and counterparty will depend 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 2013/14 is 0.80%. The investment interest included in the 2013/14 budget is £0.503m.

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 2013/14 is set out in the 2013/14 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 as follows:

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 2013/14: 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 2013/14 is as follows:

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

Unsupported Borrowing
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 the Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

MRP will be charged on the Tamar Bridge and Torpoint Ferries Joint Committee's outstanding unfinanced assets included in the Council's Capital Financing requirement. This will be offset by an equivalent receipt from the Joint Committee. This will also be the case in 2012-13 and.

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 2014 (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 30th 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 Business Rate Pooling

Following the provisional Local Government Finance settlement, Plymouth along with each of the local authorities in Devon has confirmed their membership of a Devon wide Business Rates Pool. Pooling effectively combines the tariffs/top ups of individual authorities within the pooling area and treats the area as a single authority. Plymouth is the lead authority for the pool and as such will receive the payments that are due to each of the Devon authorities. The amounts that will flow through Plymouth as lead authority are currently being worked through but initial estimates are that they will be in the region of £20m pa spread over 24 payments per year. If this is the case, it is not thought that this will pose an issue for the Treasury Management strategy; however this will be kept under review over the next few months as the cash flow implications of pooling for 2013/14 become clearer. For the purposes of this strategy any additional cash receipts resulting from payments received on behalf of other Local Authorities will not count against the limits in place for investments with counterparties included in section 8.9 and Appendix D to this report. Where these funds can be invested will be at the discretion of members of the Governing Board for the Devon Business Rates Pool.

14.2 Training

CIPFA's Code of Practice requires the Director for 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 October 2012. Council Officers will organise additional training for members and staff with Arlingclose and any other suitable organisation to ensure relevant needs are met.

14.3 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 investments and
- How the quality of service is controlled

The Authority uses Arlingclose as treasury management advisers and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events

The authority maintains the quality of service through quarterly review meetings and periodically tendering for the provision of Treasury Management consultancy services.

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet and the Audit Committee and for the execution and administration of treasury management decisions to the Director for Corporate Services, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Economic & Interest Rate Forecast (Sections 5.1 & 7.1)

	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
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.90	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Underlying Assumptions:

- Consumer Price Inflation has fallen to 2.7% from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and

subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the OMT programme, slow progress towards banking union) which has placated markets and curtailed some of the immediate risks although peripheral countries continue to struggle. Full-fledged banking and fiscal union is still some years away.

Recommended Sovereign and Counterparty List (Section 8)

Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Limits in Place at 08-01-2013	
			Maximum Counterparty limit £m	Maximum period
UK	Co-operative Bank (for banking & Liquidity purposes only)			
UK	Santander UK Plc (Banco Santander Group)	30	30	100 Days
UK	Bank of Scotland (Lloyds Banking Group) *	30	30	6 Months
UK	Lloyds TSB (Lloyds Banking Group) *	30	30	6 Months
UK	Barclays Bank Plc	30	30	12 Months
UK	HSBC Bank Plc	30	30	12 Months
UK	Nationwide Building Society	30	30	12 Months
UK	NatWest (RBS Group) *	30	30	6 Months
UK	Royal Bank of Scotland (RBS Group) *	30	30	6 Months
UK	Standard Chartered Bank	30	30	12 Months
Australia	Australia and NZ Banking Group	10	5	12 Months
Australia	Commonwealth Bank of Australia	10	5	12 Months
Australia	National Australia Bank Ltd (National Australia Bank Group)	10	5	12 Months
Australia	Westpac Banking Corp	10	5	12 Months
Canada	Bank of Montreal	10	5	12 Months
Canada	Bank of Nova Scotia	10	5	12 Months
Canada	Canadian Imperial Bank of Commerce	10	5	12 Months
Canada	Royal Bank of Canada	10	5	12 Months
Canada	Toronto-Dominion Bank	10	5	12 Months
Finland	Nordea Bank Finland	10	5	12 Months
Finland	Pohjola Bank	10	New counterparty for 2013/14	
France	BNP Paribas	10	5	100 Days
France	Credit Agricole CIB (Credit Agricole Group)	10	5	100 Days
France	Credit Agricole SA (Credit Agricole Group)	10	5	100 Days
France	Société Générale	10	5	100 Days
Germany	Deutsche Bank AG	10	5	12 Months
Netherlands	ING Bank NV	10	5	100 Days

Netherlands	Cooperative Centrale Raiffe (Rabobank)	10	5	12 Months
Netherlands	Bank Nederlandse Gemeenten	10	5	12 Months
Singapore	DBS Bank Ltd	10	New counterparty for 2013/14	
Singapore	Oversea-Chinese Banking Corporation (OCBC)	10	New counterparty for 2013/14	
Singapore	United Overseas Bbank (UOB)	10	New counterparty for 2013/14	
Sweden	Svenska Handelsbanken	10	5	12 Months
Switzerland	Credit Suisse	10	5	100 Days
US	JP Morgan Chase Bank NA	10	5	12 Months

- £30m total limit for UK bank/group to include money market call accounts
- Lloyds Banking Group limit to include deposits with:
  - Lloyds TSB
  - Bank of Scotland
- RBS Banking Group limit to include deposits with:
  - RBS
  - NatWest
- £10m total limit for Non-UK bank/group to include money market call accounts
- Credit Agricole Group limit to include deposits with:
  - Credit Agrcole CIB
  - Credit Agricole SA
- Limit of 10% of total investments in any Non-UK Country

This list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty/country is downgraded, this list may be shortened.

PLYMOUTH CITY COUNCIL- PROPOSED COUNTERPARTIES FOR NEW INVESTMENTS (EFFECTIVE 1ST APRIL 2013)

MAX LENGTH		Up to 12 months			2 Years
MAX AMOUNT		Unlimited	£30M**	£10M^^	£10m
Investment Criteria	Country	UK Government	Minimum rating (Rating required for all 3 agencies) Long Term — Fitch A-, Moody's A3, S&P A-	Minimum rating (Rating required for all 3 agencies) Long Term — Fitch A-, Moody's A3, S&P A-	Local Authorities
UK Banks	UK		Barclays Bank Plc HSBC Bank Plc Lloyds Banking Group Royal Bank of Scotland Group Santander UK PLC (Banco Santander Group) Standard Chartered Bank		
UK Building Societies	UK		Nationwide Building Society		
Central Government	UK	UK Government Debt Management Office (DMO) - DMADF Treasury Bills (T-Bills)			
Local Authorities	UK				Unitaary Councils County Councils Metropolitan Councils London Borough Councils
Foreign Banks	Australia			Australia and NZ Banking Group Commenwealth Bank of Austalia National Austalia Bank Ltd Westpac Banking Corp	
	Canada			Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada Toronto-Dominion Bank	
	Finland			Nordea Bank Finland Pohola Bank	
	France			BNP Paribas Credit Agicole CIB (Credit Agricole Group) Credit Agicole SA (Credit Agricole Group) Societe Generale	
	Germany			Deutsche Bank AG	
	Netherlands			ING Bank NV Cooperative Centrale Raiffe (Rabobank) Bank Nederlandese Gemeeten	
	Singapore			DBS Bank Ltd Oversea-Chinese Banking Corporation (OCBC) United oversea Bank (UOB)	
	Sweden			Svenska Handelbanken	
	Switzerland			Credit Suisse	
	USA			JP Morgan Chase Bank NA	
Money Market Funds	UK/Ireland/ Luxembourg				
Bonds Issues by Multilateral Development banks	Various		**£30m total limit for Bank/group to include money market call accounts and certificates of deposits. deposits with: Lloyds TSB Bank of Scotland Royal Bank of Scotland Group to include deposits with: RBS NatWest	Limit of 10% of total investments in any non UK country ^^Total Deposit limit in all periods with a non-UK bank/group £10m	

Approved by Adam Broome, Director for Corporate Services

PLYMOUTH CITY COUNCIL- PROPOSED COUNTERPARTIES FOR NEW INVESTMENTS (EFFECTIVE 1ST APRIL 2013)

MAX LENGTH		**Up to 2 years**		**Up to 5 years (CD's and other megotiable instruments)**	
MAX AMOUNT		**£10M****	**£5M^^**	**£10M****	**£5M^^**
Investment Criteria	**Country**	Minimum rating (Rating required for all 3 agencies) **Long Term** Fitch A- Moody's A3 S&P A-	Minimum rating (Rating required for all 3 agencies) **Long Term** Fitch A- Moody's A3 S&P A-	Minimum rating (Rating required for all 3 agencies) **Long Term** Fitch A- Moody's A3 S&P A-	Minimum rating (Rating required for all 3 agencies) **Long Term** Fitch A- Moody's A3 S&P A-
UK Banks	**UK**	Barclays Bank Plc HSBC Bank Plc Lloyds Banking Group Royal Bank of Scotland Group Santander UK PLC (Banco Santander Group) Standard Chartered Bank		Barclays Bank Plc HSBC Bank Plc Lloyds Banking Group Royal Bank of Scotland Group Santander UK PLC (Banco Santander Group) Standard Chartered Bank	
UK Building Societies	**UK**	Nationwide Building Society		Nationwide Building Society	
Central Government	**UK**				
Local Authorities	**UK**				
Foreign Banks	**Australia**		Australia and NZ Commenwealth Bank National Austalia Bank Westpac Banking		Australia and NZ Banking Group Commenwealth Bank of Austalia National Austalia Bank Ltd Westpac Banking Corp
	Canada		Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada Toronto-Dominion		Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada Toronto-Dominion Bank
	Finland		Nordea Bank Finland Pohola Bank		Nordea Bank Finland Pohola Bank
	France		BNP Paribas Credit Agicole CIB (Credit Agricole Group) Credit Agicole SA (Credit Agricole Group) Societe Generale		BNP Paribas Credit Agicole CIB (Credit Agricole Group) Credit Agicole SA (Credit Agricole Group) Societe Generale
	Germany		Deutsche Bank AG		Deutsche Bank AG
	Netherlands		ING Bank NV Cooperative Centrale Raiffe (Rabobank) Bank Nederlandese		ING Bank NV Cooperative Centrale Raiffe (Rabobank) Bank Nederlandese Gemeeten
	Singapore		DBS Bank Ltd Oversea-Chinese Banking Corporation (OCBC) United oversea Bank		DBS Bank Ltd Oversea-Chinese Banking Corporation (OCBC) United oversea Bank (UOB)
	Sweden		Svenska Handelbanken		Svenska Handelbanken
	Switzerland		Credit Suisse		Credit Suisse
	USA		JP Morgan Chase Bank		JP Morgan Chase Bank NA
Money Market Funds	**UK/Ireland/ Luxembourg**				
Bonds Issues by Multilateral Development banks	**Various**	****£30m total limit for Bank/group to include money market call accounts and certificates of deposits. deposits with: Lloyds TSB Bank of Scotland Royal Bank of Scotland Group to include deposits with: RBS NatWest**	**Limit of 10% of total investments in any non UK country ^^Total Deposit limit in all periods with a non-UK bank/group £10m**	****£30m total limit for Bank/group to include money market call accounts and certificates of deposits. deposits with: Lloyds TSB Bank of Scotland Royal Bank of Scotland Group to include deposits with: RBS NatWest**	**Limit of 10% of total investments in any non UK country ^^Total Deposit limit in all periods with a non-UK bank/group £10m**

Approved by Adam Broome, Director for Corporate Services

PLYMOUTH CITY COUNCIL- PROPOSED COUNTERPARTIES FOR NEW INVESTMENTS (EFFECTIVE 1ST APRIL 2013)

MAX LENGTH		10 Years		Pooled Funds	Money Market Funds
MAX AMOUNT		£20m	£20m	£20m~~	£5m *
Investment Criteria	Country	UK Government	Multilateral Development Banks	Pooled funds meeting the definition of a Collective Investment Scheme per SI 2004 No. 534 and subsequent amendments.	Minimum rating (Rating rquired from at leat 1 agency) Fitch Moody's S&P A Constant/Variable Net Asset value investing predominantly in Government securities. AAAm mf Aaa/MR+ AAAm A Constant/Variable Net Asset value investing in instruments issued primarily by financial institutions.
UK Banks	UK				
UK Building Societies	UK				
Central Government	UK	Gilts			
Money Market Funds	UK				
Money Market Funds	UK/Ireland/ Luxembourg				Aviva Investors Sterling Liqidity Fund Blackrock Sterling Liquidity Fund BNY Mellon Asset management Sterling Liquidity Fund CCLA Public Sector Deposit Fund Deutsche Managed Sterling Fund Fidelity International Institutional Goldman Sachs Liquid Reseve Fund HSBC Sterling Liquidity Fund Ignis Asset management Sterling liquidity Fund Insight Investments Sterling Liquidity Fund Invesco aim STIC Sterling Liquiditty Portfolio J.P. Morgan Sterling Liquidity Fund Legal & General Investment Management Sterling Liquidity Fund Morgan Stanley Investment Management Sterling Liquidity Fund Northern Trust Global Cash Fund Prime Rate Capital Management Sterling liquidity fund RBS Sterling Fund State Street Global Advisors GBP Liquidity Fund SWIV Global Liquidity Fund - Sterling Fund
Pooled Funds	Various			CCLA Lamit property Fund Elite Chartis Premium Income Fund Payden & Rygel Sterling Reserve Fund	
Bonds Issues by Multilateral Development banks	Various		Council of Europe Development Bank (CEDB)* European Bank for Reconstruction and Development (EBRD)* Eurpoean Investment Bank (EIB)* Inter-AmericanDevelopment Bank (IADB)* International Bank for Reconnstruction and Development (the World Bank)* Kreitanstalt fuer Wiederaufbrau (KFW) Nordic Investment Bank (NIB)*		
Footnotes:		Total Investment in Gilts not to Exceed 20% of investment portfolio	* Maximum total Investments in Bonds£20m. Not to exceed 20% of total investment portfolio.	~~ Total Investments in pooled funds which meet the definition of a collective sheme as per SI 2004 No. 534 and subsequent amendments not to exceed £20m.	* Total MMF investments not to exceed 20% of investment portfolio. Maximum £5m per fund limited to 0.5% of net asset value or 2% of net asset value for Government MMF's

Approved by Adam Broome, Director for Corporate Services