BABERGH DISTRICT COUNCIL

From: Director of Finance	**Report Number: L132**
To: Overview and Scrutiny (Stewardship) Committee	**Date of meeting: 24 January 2012**

DRAFT TREASURY MANAGEMENT STRATEGY 2012/13

1. Purpose of Report

1.1 To present the proposed treasury management strategy for 2012/13, which sets out the annual investment strategy for managing surplus funds and the borrowing strategy in accordance with the revised CIPFA Treasury Management Code of Practice in the Public Services (2011 edition), including managing the additional Council Housing debt as a result of the Government's self-financing reforms.

1.2 The CIPFA Treasury Management Code of Practice recommends the strategy is subject to scrutiny before it is recommended to Council (via Strategy Committee). The ongoing scrutiny of the Council's Treasury Management Strategy and Policies will continue to be undertaken by Overview and Scrutiny (Stewardship) Committee.

2. Recommendations

2.1 That the CIPFA Treasury Management Code of Practice in the Public Services (2011 edition) is adopted

2.2 That the key factors and information affecting treasury management activities set out in Appendix A be noted.

2.3 That, subject to further consideration by Strategy Committee on 9 February of the HRA Business Plan and after publication of the final settlement debt and Housing Subsidy Determination, the following are approved:

(a) The Treasury Management Policy Statement set out in Appendix B

(b) The Draft Treasury Management Strategy for 2012/13, including the Annual Investment Strategy and the Policy for Managing the HRA Debt, as set out in Appendix C

(c) The Draft Prudential Indicators and Limits for 2011/12 to 2014/15 set out in Appendix D

The Committee is able to make recommendations to Strategy Committee on the above matters.

3. Financial Implications

3.1 Expected investment income in 2011/12 is likely to be about £61k compared to £49k in 2010/11. Income generated from the investment of surplus funds is forecast to continue at these relatively low levels in 2012/13 until such time as interest rates increase.

3.2 The revenue cost of borrowing in 2012/13 and subsequent years in relation to the capital programme will be minimised by borrowing on the most beneficial basis at the most appropriate time of the year, based on advice from our Treasury Advisors (Arlingclose). The proposed draft General Fund revenue budget for the year of £347k, which covers the minimum revenue provision for principal repayments and interest, should be sufficient to meet these costs although there are risks around the delay to anticipated capital receipts and, to a lesser extent, increased borrowing rates.

3.3 In relation to the Housing Revenue Account (HRA), the Government's self-financing of council housing ends the housing subsidy system by offering a one-off reallocation of debt to councils. The 'debt settlement' is expected to take place on 28 March 2012 and will result in the Council having an increase in its debt to fund the settlement of £84 million.

3.4 The specific loan amounts and terms will be determined in conjunction with advice from our treasury advisors and reflected in the 30 year Council Housing business plan. The draft Prudential Indicators in Appendix D reflect the likely increase in borrowing in relation to the self-financing settlement but these may require updating once final details are known.

3.5 Any additional interest costs for 2011/12 related to the settlement borrowing will be reimbursed to the Council's HRA via an adjustment to the revised Housing Subsidy Determination. However, there is likely to be a one-off loan arrangement fee of approximately £30k which may not be reimbursed by the Government.

4. Risk Management

4.1 This report is most closely linked with the Council's Corporate / Significant Business Risk No. 6 – Performance and Cost Management. Key risks are set our below :.

Risk Description	Likelihood	Impact	Mitigation Measures
Loss of investment	Low	Critical	Strict lending criteria for highly credit rated institutions.
Poor return on investments/ Liquidity	High	Marginal	Focus is on security and liquidity, therefore, careful cashflow management and budget monitoring in accordance with the Strategy, is undertaken.

Risk Description	Likelihood	Impact	Mitigation Measures
Higher than expected borrowing costs – interest rate increases/lower capital receipts than forecast	Low	Marginal	Benchmark is to borrow from the Public Works Loan Board whose rates are very low and can be on a fixed or variable basis (with special arrangements for the HRA debt settlement). Alternatively, continue to use internal surplus funds temporarily. Capital receipts monitored as part of quarterly performance reporting to Members.

5. Consultations

5.1 The Treasury Management Strategy and associated documents have been prepared after consultation with the Council's treasury advisors.

6. Equality Analysis

6.1 Not relevant to the strategy as it covers issues that will not have any equality impacts.

7. Shared Service / Partnership Implications

7.1 This report relates solely to Babergh's Strategy, however, the report and format of the strategy and investment criteria and related documents have been aligned with Mid Suffolk where appropriate.

8. Key Information

Overall background

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

8.2 The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 20 April 2010. CIPFA revised the TM Code in November 2011, following recent developments and anticipated regulatory changes relating to the Localism Bill 2011, including the housing finance reforms and the introduction of the General Power of Competence. The Council needs to adopt the latest Code and incorporate the latest changes into its Treasury Management Strategy including its treasury policies, procedures and practices.

8.3 The key purpose of the TMSS is to approve:

- Revisions to the Treasury Management Strategy and Prudential Indicators for 2011/12

- The proposed Treasury Management Strategy for 2012/13 (Appendix C)
- The Prudential Indicators for 2011/12 (revised), 2012/13, 2013/14 and 2014/15 (Appendix D)
- The MRP Statement

8.4 In relation to borrowing, the MRP Statement (Minimum Revenue Provision) is presented to Council within the Budget Report. This governs the approach to making financial provision for repaying borrowings.

8.5 The Strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position.

8.6 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an integral element to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

8.7 All treasury activities will comply with relevant statutes, guidance and accounting standards.

Debt

8.8 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Council's Treasury Management activities.

8.9 The Council is able to borrow in future years up to the projected level of its CFR in 2014/15, as set out in the Prudential Indicators, Appendix D. The Council is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweighs the cost and risks of using internal funds.

8.10 The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Council's borrowing requirement and investment strategy in the current and future years.

The 2012/13 Strategy

Background

8.11 Treasury Management is an important part of the overall financial management of the Council's affairs. The Prudential Indicators in Appendix D consider the affordability and impact of capital expenditure decisions and set out the Council's overall capital and treasury framework. Effective management and decisions on funding ensure the Council complies with the provisions of S.32 of the Local Government Finance Act 1992 to set a balanced budget.

8.12 Key information relating to the Council's treasury management operations in terms of the annual investment and borrowing strategy proposed for 2012/13 are set out in the attached appendices. Factors affecting the strategy are detailed in Appendix A, Policy Statement (Appendix B) and the proposed strategy for the year (Appendix C) which contains the key components of the investment and borrowing strategy for 2012/13 (further details on the new HRA debt will be included in the HRA Business Plan).

Investment of Surplus Funds

8.13 The proposed investment strategy for 2012/13 continues to primarily focus on the effective management and control of risk, giving priority to security and liquidity when investing funds. Investment returns remain an important but secondary consideration.

8.14 Changes are proposed to relax the minimum investment criteria for UK counterparties in the 2012/13 Strategy from A+ to A- to include many of the institutions considered important to the financial system. The maximum investment limit per institution remains at £2m for all specified investments, other than with the Government's Debt Management Agency deposit Facility (DMADF), where there is no limit on the amount invested.

8.15 Key aspects and changes proposed to the investment strategy are summarised in the table below:

Aspect	2012/13 Strategy
Specified Investments – High credit rated institutions	• This reflects a relaxation in the minimum criterion for UK investments from A+ to A-, or equivalent across all credit rating agency ratings. This is on the advice of our Treasury advisor, Arlingclose, and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system. Appendix E compares those institutions that will meet the A- credit rating in 2012/13 with the A+ credit rating in the 2011/12 Strategy. • The minimum criterion of AA- for foreign banks is unchanged. • Additional foreign banks are included: Australia – Australia & NZ Banking Group, Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Group; Canada – Bank of Montreal, Canadian Imperial Bank of Commerce. • No European or US banks are included • The list of "high credit quality" investments has been expanded to include: ❖ Commercial Paper ❖ Corporate Bonds

Aspect	2012/13 Strategy
Non-specified investments	• The only non-specified investment (for less than a year) will continue to be in an instant access call account with its own Bankers, Co-operative Bank. This is non-specified as the Bank does not meet the Council's high credit rating criteria, which is due in part to the merger of the Co-operative Bank with the Britannia Building Society • Any investment over 1 year must be classified as a non-specified investment. This would only be undertaken with institutions satisfying the high credit ratings that have been set for specified investments and will only be used with the prior approval of the Director of Finance.
Housing Reform	A new section has been included for the Treasury Management Implications of the 'Council Housing Self-Financing Reform'. Local authorities will need to continue to ensure that they – • Consider the impact on acceptable rent levels when considering the affordability of capital plans • Make separate calculations for their HRA and non-HRA elements and for the estimated impact on rents as well as council tax.

8.16 Currently all investments are suspended for Santander UK plc, even though they currently meet the Council's high credit rating criteria, on the basis that Members and the Director of Finance believe that it is not appropriate at the current time to lend to any banks with connections to countries that are experiencing severe economic difficulties. This will be kept under review and the position will only be reconsidered, with Member approval, should that position change.

8.17 A list of the Banks and Building Societies that the Council is currently able to lend to (as at end of December 2011) is provided in Appendix E. This will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated. No European banks are included on the Counterparty list as they do not meet the required high credit rating. There remains very limited scope for placing investments in the Building Society sector.

8.18 The period for which specified investment will be made is a key aspect of the investment strategy. This criterion is set out in Section 31 in Appendix C. In essence, a short-term investment strategy (up to 364 days) will remain the Council's core approach and longer-term deposits. Investments in excess of 364 days are considered to be non-specified investments and will only be undertaken with prior approval of the Director of Finance.

Borrowing

8.19 As indicated in Table 1, Appendix C the Council has a 'gross' borrowing requirement of around £93m and will be required to borrow up to £90m in 2012/13. Further details on splitting the debt between the General Fund and the HRA are shown from section 15 in Appendix C. Consideration is given to all forms of borrowing/financing: PWLB, Other Local Authorities, Commercial banks, European Investment Bank (EIB), Money Markets, Capital Markets (stock issues, commercial paper and bills), Structured Finance, Leasing, etc.

8.20 The PWLB, however, remains the most remains likely source of borrowing, especially for the new Council House settlement debt of £84m for which the Government has agreed discounted rates.

8.21 Officers will take advice on the optimum time to undertake additional borrowing and will adopt a flexible approach in consultation with treasury advisors, after consideration of the following:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risks
- Borrowing source

9. Appendices

Title	Location
(a) Key factors and Information on Treasury Management Activities	Attached
(b) Treasury Management Policy Statement	Attached
(c) Draft Treasury Management Strategy 2012/13	Attached
(d) Draft Treasury Management Indicators and Prudential Indicators 2012/13 to 2014/15	To follow
(e) Institutions meeting high credit ratings criteria (as at end of December 2011)	Attached

10. Background Documents

10.1 CIPFA Treasury Management in the Public Services - 2011

10.2 The Prudential Code for Capital Finance in Local Authorities - 2011

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APPENDIX A

ECONOMIC OUTLOOK AND INTEREST RATE FORECAST

1. Conventional monetary policy has become largely redundant. The Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012.

2. The Bank of England's Monetary Policy Committee (MPC) has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. The MPC's decision to embark on a further £75 billion of quantitative easing, which was unanimously supported, demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery.

3. The economic interest rate outlook provided by the Council's Treasury Advisor, Arlingclose Ltd, is shown in the table below. The Council will reappraise its strategy from time to time and, if needed, this will be realigned having regard to evolving market conditions and expectations for future interest rates.

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						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													
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40
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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.25	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50
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	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.20	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	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
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.25	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25
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

4. Inflation (CPI) increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.

5. Business confidence has yet to recover sufficiently for commitment to new capital investment and employment.

6. Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

APPENDIX B

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and Background

1.1 The Council has adopted the key recommendations of the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain the following 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 Members 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 above and the implementation of its treasury management policies and practices to Strategy Committee, monitoring to Overview and Scrutiny (Stewardship) Committee and the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the organisation's policy statements, TMPs and CIPFA's Standard of Professional practice on Treasury Management.

1.5 The Council has nominated Overview and Scrutiny (Stewardship) 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 organisation's investments and cash flows, it's banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance associated with those risks."

2.2 The 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 the risk implications for the Council, and any financial instruments entered into to manage these risks.

2.3 The 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 comprehensive 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 Council's investments followed by the yield earned on investments remain important but are secondary considerations.

APPENDIX C

DRAFT TREASURY MANAGEMENT STRATEGY 2012/13

1. Treasury Management is strictly regulated by statutory requirements. The professional code of practice has been revised and the Council is to adopt the revised CIPFA Treasury Management Code of Practice in the Public Services (2011 edition).

2. The Local Government Act 2003 and supporting regulations requires the Council to have regard to the Prudential Code and set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act also requires the Council to set out annually its treasury strategy for borrowing and investment.

3. Effective management and decisions on funding ensure the Council complies with the provisions of S.32 of the Local Government Finance Act 1992 to set a balanced budget.

4. The Council will reappraise its strategies from time to time in response to evolving economic, political and financial events.

5. Table 1 below shows that the Council's capital expenditure plans cannot be funded entirely from sources other than external borrowing. This is represented by the Capital Financing Requirement (CFR).

Table 1 – Balance Sheet Summary Analysis

	Forecast 2011/12 £m	Estimate 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m
General Fund	4.1	5.0	6.1	6.7
Housing Revenue Account	** 90.2	90.2	90.2	90.2
TOTAL CFR	**94.3**	**95.2**	**96.3**	**96.9**
Less:				
Existing Profile of Borrowing and	(5.7)	(5.2)	(4.7)	(4.2)
Other Long Term Liabilities	(0.1)	0	0	0
Cumulative Maximum External Borrowing Requirement	**88.5**	**90.0**	**91.6**	**92.7**
Balances & Reserves				
General Fund	(2.5)	(2.9)	(1.5)	(1.5)
Housing Revenue Account	(1.0)	(1.0)	(1.0)	(1.0)
Cumulative Net Borrowing Requirement/(Investments)	**85.0**	**86.1**	**89.1**	**90.2**

** This figure reflects the settlement debt of £84m related to Council House Reform.

6. The Self-Financing Reform of council housing involves ending the housing subsidy system by offering a one-off reallocation of debt. The debt settlement is expected to take place on 28th March 2012 and will involve the Council

increasing its debt to fund the settlement, currently estimated at £84m. The amount and terms of the settlement debt will be determined by the Council in conjunction with the advice of its treasury advisors, Arlingclose.

Borrowing Strategy

7. Treasury management and borrowing strategies in particular continue to be influenced by the relationship between short and long term interest rates. The interest rate forecast provided in Appendix A 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 difference between what is paid on the borrowing and what is earned on the investment.

8. As indicated in Table 1, the Council has a gross borrowing requirement (as reflected by the CFR) of around £95 million in 2012/13 and will adopt a flexible approach to this borrowing in consultation with its treasury advisors. The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

Sources of Borrowing

9. In conjunction with advice from its treasury advisor, the Council will keep under review the following borrowing sources:

- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

10. The cost of carry has resulted in an increased reliance by some councils upon shorter dated and variable rate borrowing. The Council currently has no variable rate borrowing but, where it exists, will ensure that this type of borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. This is to ensure that interest rate risk is counterbalanced by its affordability and alignment of borrowing costs with investment returns.

11. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether any exposure to shorter dated and variable rates is maintained or altered.

Debt Rescheduling

12. The Council'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 interests costs.

13. The lower interest rate environment and changes in the rules regarding premature repayment of PWLB loans has, however, adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities may 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

14. Borrowing and any debt rescheduling activity will be reported to Strategy Committee in the Annual Treasury Management Report and to Overview and Scrutiny (Stewardship) Committee in the quarterly treasury management reports.

Council House Reform

15. The Government has signalled its intention not to impose a single solution for splitting current borrowing between the General Fund and the Housing Revenue Account.

16. It is accepted that HRA funds are not third party funds but funds of the Council and so will not necessarily be separately identifiable. However, local authorities should have a clear agreed policy approved by full Council for attributing income and expenditure and risks between the General Fund and the HRA.

17. The principles upon which the allocation of loans should be based are as follows:

    - The underlying principle for the splitting of loans, at transition, must be that of no detriment to the General Fund
    - Local authorities are required to deliver a solution that is broadly equitable between the HRA and the General Fund
    - Future changes to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control
    - Uninvested balance sheet resources, which allow borrowing to be below the CFR, are properly identified between General Fund and HRA.

18. It is expected that, generally, only long-term loans will be split.

19. It may at times be mutually beneficial to move existing loans from the HRA to the General Fund portfolio or vice versa, recognising an appropriate 'internal' premium or discount. This avoids physically repaying and re-borrowing, which may incur significant debt rescheduling costs, particularly with the PWLB.

20. There are a number of options for the Council to consider including the adoption of a one-pool or a two-pool approach. The one-pool approach maintains the current arrangement for apportioning costs but may restrict the Council's ability to manage interest rates over time according to the HRA's loan and risk profile. The two-pool approach involves splitting existing loans between the HRA and the General Fund and maintaining separate loan pools in the future.

21. If a two-pool approach is approved, the Council needs to choose and evidence a fair rate of interest to charge.

22. As settlement takes place on the 28 March 2012, the CFR and debt figures will not be finalised until the accounts are closed for the financial year. The proposed approach is as follows:

- The Budget and Treasury Management Strategies are to be compiled based on estimates
- Officers continue to work with the Council' treasury advisors to determine the most appropriate debt split and update this section when more detailed information is available
- The Policy on Managing the HRA debt will be included in the Strategy documents reported to Strategy Committee n 12 February 2012

Annual Investment Strategy

23. In accordance with Investment Guidance issued by the CLG and best practice, the Council's primary objective in relation to the investment of public funds remains the security of capital, with the liquidity or accessibility of investments followed by yield being important but secondary considerations. The Council's investments priorities are:

- Security of the invested capital
- Liquidity of the invested capital
- An optimum yield which is commensurate with security and liquidity.

24. The overall investment strategy is to ensure prudent investment of surplus funds.

25. Credit markets remain in a state of distress as a result of the excessive and poor performing debt with the financial markets. It is against this backdrop of uncertainty that the Council's investment strategy is framed.

26. 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 meet the "high credit quality" as determined by the Council and are not deemed capital expenditure investments under Statute.
- Non-Specified investments – are, effectively, everything else. These include investments made for periods greater than 1 year, which are considered less liquid as the cash is not quickly realisable.

27. Specified investments are those expected to offer high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines specified investments as follows:

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

28. The Council defines the following categories of investment as being of "high credit quality" for making specified investments - subject to the monetary and time limits referred to in section 39 and shown in Table 4.

Table 2 – Specified and Non-Specified Investments

Investment	Specified	Non-Specified
a. Deposits in the DMO's Debt Management Account Deposit Facility	✓	✗
b. Deposits with UK other local authorities	✓	✓
c. Deposits with banks and building societies	✓	✓
d. Certificates of deposit with banks and building societies	✓	✓
e. Gilts: (bonds issued by the UK government)	✓	✓
f. Bonds issued by multilateral development banks	✓	✓
g. Treasury-Bills (T-Bills)	✓	✗
h. Local Authority Bills (LA Bills)	✓	✗
i. Commercial Paper	✓	✗
j. Corporate Bonds	✓	✓
k. AAA-rated Money Market Funds	✓	✗
l. Other Money Market Funds and Collective Investment Schemes	✓	✓

Investments in instruments d to l above will be on advice from the Council's Treasury Advisor, Arlingclose.

29. A number of changes have been implemented within the investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. As a result, corporate bonds are included which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. The high credit quality required by the Council includes the following minimum investment criteria (Fitch), (Table 3 explains the various credit ratings):

- UK banks and Building Societies – A-
- Money Market Funds – AAA
- Foreign Banks – AA- (AAA sovereign rating only)

However, the principal amendments are in relation to the individual institutions with which the Council is prepared to lend its funds and is detailed in section 30.

30. Local authorities are advised to have regard to the ratings issue by the three main agencies, Fitch, Moody's and Standard & Poor's and to make decisions based on all credit rating agencies' lowest ratings for each institution. The Council and its treasury advisors select countries and financial institutions after analysis and ongoing monitoring of the following:

- Published credit ratings for UK financial institutions minimum long term rating of A- or equivalent for counterparties
- Published credit ratings for non-UK sovereigns of AA- or equivalent (sovereign rating AAA only)
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay (common sense)

Table 3 – Long Term Investment Grades

Rating Agency	**Rating**	**Definition**
HIGHEST RATING		
Fitch	AAA	Highest credit quality – 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
Moody's	Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Standard & Poor's	AAA	An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.

Rating Agency	Rating	Definition
NEXT HIGHEST RATING		
Fitch	AA+ AA AA-	Very high credit quality 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
Moody's	Aa1 Aa2 Aa3	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
Standard & Poor's	AA+ AA AA-	An obligator rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only to a small degree.
THIRD HIGHEST RATING		
Fitch	A+ A A-	High credit quality – 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
Moody's	A1 A2 A3	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Standard & Poor's	A+ A A-	An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.

31. The maximum period for individual investments meeting the highest primary criteria is up to 1 year, maximum 364 days, and regard will be had to any time-limited Government guarantees. Investments over 6 months (over 185 days) are subject to the prior approval of the Director of Finance or Corporate Finance Manager

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

33. The countries and institutions that meet the criteria (as at 31 December 2011) for term deposits, Certificates of Deposit (CDs) and call accounts are included in Appendix E, comparing those institutions that will meet the Fitch/Standard and Poor's A- credit rating in 2012/13 (or equivalent Moody's rating of A3), compared to the Council's requirement for 2011/12 of at least A+.

34. It remains the Council's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional.

Therefore, an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

The Council's Own Banker

35. The Council banks with the Co-operative Bank which, at the present time, does not meet the high credit rating criteria of A- (or equivalent) long term. Following very careful consideration, it has been concluded that this bank will continue to be used by the Council for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Investment Strategy

36. With short term interest rates likely to remain low for even longer than previously anticipated, 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.

37. 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 that prudent diversification is achieved.

38. Triple A rated money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification, the council will also seek to diversify any exposure by utilising more than one MMF. The Council 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.

39. In addition to applying investment limits to individual institutions, clear country and sector limits should also be set. The following table summarises the various limits that should apply to each sector. The limit per institution is £2m, as in 2011/12, other than the DMADF which is unlimited and Money Market Funds, which have a limit per fund of 10% of our total investments (except the Public Sector Deposit Fund which has a limit of £500k).

Table 4 – Sector Limits

Sector Limits	**Maximum limit of total investments 2011/12**
UK Banks (Deposits & Call Accounts)	100%
UK Building Societies	25%
Deposits - Foreign Banks	40%
Money Market Funds	50%
Local Authorities	100%
DMADF	100%

The Use of Financial Instruments for the Management of Risks

40. Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives.

41. Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives. The Council currently has no plans to use derivatives, but this change in strategy will require full Council approval.

The 2012/13 MRP Statement

42. 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 (MRP) 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.

43. The MRP Statement will be submitted to full Council before the start of the 2012/13 financial year as part of the Council's budget approval. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

44. The Director of Finance will report quarterly on treasury management performance and prudential indicators through the Quarterly Finance and Performance Report to Overview and Scrutiny (Stewardship) Committee. An operational report is provided monthly to the Director of Finance.

45. A mid-year and annual outturn report on Treasury activity is provided to Overview and Scrutiny (Stewardship) Committee no later than 30 September after the financial year end.

46. The Overview and Scrutiny (Stewardship) Committee is responsible for the scrutiny of treasury management activity and practices.

Training

47. CIPFA'S Code of Practice requires the Director of Finance 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.

48. The Council recognises the importance of ensuring that all staff and members responsible for the delivery and scrutiny of the treasury management function are appropriately skilled and trained to undertake their duties. All training requirements are addressed through a range of internally or externally provided sessions appropriate to the skill / knowledge gaps and responsibility levels.

Investment Consultants / Treasury Advisors

49. The Council's treasury management advisors are Arlingclose Ltd whose contract commenced on 1 June 2010 for 2 years, with an option to extend for a further year. The contract is a joint arrangement with Mid Suffolk. The treasury advisor service is subject to regular review to ensure compliance with the requirements of the Treasury Management Strategy and TMPs' Use of External Service Providers.

50. Whilst the advisors provide support to the treasury function, under current market rules and the CIPFA code of Practice, the final decision on treasury matters remains with the Council.

51. The treasury advisor service includes a range of services:

- Technical support on treasury matters, capital finance issues, drafting the Treasury Management Strategy and advice on preparing the annual and quarterly reports.
- Economic and interest rate analysis
- Debt services including advice on borrowing, in particular those relating to council house reform
- Credit ratings/generic market information comprising the three main credit rating agencies, generally available market information and information on government support for banks and the credit ratings of that government support.

52. Local authorities should be mindful of the requirements of the Bribery Act 2011 in their dealings with external advisors.

DRAFT TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2012/13 TO 2014/15

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Net Borrowing and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that the net external borrowing 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 increases to the capital financing requirement for the current and next three financial years.

The Director of Finance reports that the authority will have no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure

3.1 This and subsequent indicators are set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the Housing Revenue Account (HRA), the relationship to housing rent levels.

Table 1 – Estimated Capital Expenditure

	Forecast 2011/12 £m	Estimate 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m
TOTAL General Fund (GF)	4.1	3.1	2.2	1.4
Housing Revenue Account (HRA)	3.5	5.2	5.9	5.2
TOTAL CAPITAL PROGRAMME	**7.6**	**8.3**	**8.1**	**6.6**

NOTE: to be updated when the final figures for the HRA are determined as part of the Budget setting and HRA Business Plan proposals under the Government's new Council Housing reforms.

3.2 It is envisaged that capital expenditure will be financed or funded as follows:

Table 2 – Financing of Capital Programme

Capital Financing	2011/12 Forecast £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Capital receipts	0.5	1.4	0.5	0.1
Government Grants	0.9	0.4	0.3	0.3
Major Repairs Allowance	2.5	2.3	2.3	2.3
Revenue contributions	1.1	2.9	3.5	2.8
Total Financing	**5.0**	**7.0**	**6.6**	**5.5**
Unsupported borrowing	2.6	1.3	1.5	1.1
Total Funding	**2.6**	**1.3**	**1.5**	**1.1**
Total Financing and Funding	**7.6**	**8.3**	**8.1**	**6.6**

4. Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the prudential code. The ratio is based on costs net of investment income.

Table 3 – Ratio of Financing Costs to Net Revenue Stream

	Forecast 2011/12 %	Estimate 2012/13 %	Estimate 2013/14 %	Estimate 2014/15 %
GF	1.67%	3.03%	5.56%	6.13%
HRA	4.72%	27.93%	25.62%	24.51%

NOTE - This includes interest on borrowing at 4% relating to the Council Housing reforms.

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose/investment. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to expenditure on the capital programme and its financing.

Table 4 – Capital Financing Requirement

	Revised 2011/12 £m	Estimate 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m
GF	4.1	5.0	6.1	6.7
HRA	* 90.2	90.2	90.2	90.2
Total CFR	**94.3**	**95.2**	**96.3**	**96.9**

* this figure reflects the potential increase related to Council House Reform which requires the Council to borrow around £84m to finance its withdrawal from the HRA Subsidy system. To be updated as necessary.

6. Actual External Debt

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance of the actual external borrowing plus other long-term liabilities which relate to finance leases. This Indicator includes the estimated housing reforms debt settlement take-on and allows a direct comparison with the Operational Boundary and Authorised Limit shown in Tables 7 and 8.

Table 5 – Actual External Debt as at 31 March

	Actual 31/03/11 £m	Forecast 31/03/12 £m
Borrowing	3.0	89.6
Other Long-term Liabilities	0.2	0.1
Total	**3.2**	**89.7**

7. Incremental Impact of Capital Investment Decisions

7.1 This is an indicator of affordability that shows the estimated impact of capital investment decisions on Council Tax and on average Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from financing the proposed capital programme. The annual General Fund capital programme reduces from 2012/13

Table 6 – Incremental Impact on Council Tax and Housing Rents

	Estimate 2012/13 £	Estimate 2013/14 £	Estimate 2014/15 £
Council Tax at band D	5.26	4.74	2.16
Est. effect on Average weekly housing rent	0.08	(0.08)	(0.07)

7.2 These amounts reflect the relative levels of capital borrowing required and the actual additional external borrowing, loan repayments and interest in each year. Settlement debt is excluded from these calculations.

8. Authorised Limit and Operational Boundary for External Debt

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Table 7 – Authorised Limits for External Debt

	Forecast 2011/12 £m	Estimate 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m
Borrowing / CFR	94.3	103.2	104.3	104.9
Other Long Term Liabilities (Leases)	0.1	0	0	0
Cash Flow Deficit / Margin	2.6	3.8	3.7	4.1
TOTAL	**97. 0**	**107. 0**	**108.0**	**109.0**

Other long term liabilities relate to finance leases. These leases come to an end in 2013/14 and so there are no long term liabilities relating to these leases from 2012/13 onwards.

8.5 The limits within Tables 7, 8 and 9 have been increased for 2011/12 to allow for the Council House Reforms and the debt settlement that will take place at the end of March 2011.

8.6 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow 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.

8.7 The Director of Finance 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 Overview and Scrutiny (Stewardship) Committee through the Quarterly Finance and Performance Report.

8.8 The limits within Tables 8 and 9 have been increased for 2011/12 to allow for the Council House Reforms and the debt settlement that will take place at the end of March 2011.

Table 8 – Operational Boundary for External Debt

	Forecast 2011/12 £m	**Estimate 2012/13 £m**	**Estimate 2013/14 £m**	**Estimate 2014/15 £m**
Borrowing / CFR	94.3	103.2	104.3	104.9
Other Liabilities / Cash Flow Deficit	0.7	0.8	0.7	1.1
TOTAL	**95.0**	**104.0**	**105.0**	**106.0**

9. Adoption of the CIPFA Treasury Management Code

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

9.2 The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 20 April 2010. CIPFA revised the Treasury Management Code in November 2011 following recent developments and anticipated regulatory changes to the Localism Bill 2011, including the housing finance reforms and the introduction of the General Power of Competence.

9.3 The Council will adopt the latest Code and the latest changes have been incorporated into the Treasury Management Strategy including its treasury policies, procedures and practices.

10. Gross and Net Debt

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need by comparing the net debt to the capital financing requirement.

CIPFA is now consulting more widely on a proposed change from net debt to gross debt as this may better fulfil the indicators purpose.

Table 9 – Gross and Net Debt

Gross and Net Debt	2011/12 Forecast £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Total CFR	94.3	95.2	96.3	96.9
Outstanding Borrowing (at nominal value)	89.7	90.2	90.7	90.1
Other Long-term Liabilities –Finance Leases (at nominal value)	0.1	0.0	0.0	0.0
Gross Debt	**89.8**	**90.2**	**90.7**	**90.1**
Less: investments	(4.3)	(1.0)	(0.5)	(0.5)
Net Debt	**85.5**	**89.2**	**90.2**	**89.6**

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

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

Table 10 – Interest Rate Exposure

Interest Rate Exposures	2011/12 Forecast %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Fixed				
Upper Limit for Fixed Interest Rate Exposure on Debt	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)
Net Fixed Exposure	**0**	**0**	**0**	**0**
Variable				
Upper Limit for Variable Interest Rate Exposure on Debt	30	30	30	30
Upper Limit for Variable Interest Rate Exposure on Investments	(60)	(60)	(60)	(60)
Net Variable Exposure	**(30)**	**(30)**	**(30)**	**(30)**

11.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

12.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Table 11 – Maturity Structure of Borrowing

	Existing level at 31/03/11 %	**Lower Limit for 2012/13 and subsequent years** %	**Upper Limit for 2012/13 and subsequent years** %
Under 12 months	7%	0%	50%
12 months and within 24 months	7%	0%	50%
24 months and within five years	20%	0%	50%
Five years and within 10 years	30%	0%	100%
10 years and above	36%	0%	100%

13. Credit Risk

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

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

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

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);

- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

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

14. Upper Limit for total principal sums invested over 364 days

14.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. Investments in excess of 364 days are considered to be non-specified investments and will only be undertaken with prior approval of the Director of Finance

Table 12 – Upper Limit for total principal sums invested over 364 days

	Forecast 2011/12 £m	Estimate 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m
Upper Limit for total principal sums invested over 364 days	2	2	2	2

NOTE: The limit will be updated in the light of the Council House Reforms.

15. Table 13 - HRA Limit on Indebtedness

This is a new indicator as required in the revised Prudential Code, issued in November 2011. It shows the HRA CFR compared to the HRA CFR debt cap.

HRA Limit on indebtedness	2011/12 Forecast £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
HRA CFR	90.2	90.2	90.2	90.2
HRA Debt Cap (as Prescribed by CLG)	98.2	98.2	98.2	98.2
Difference	8.0	8.0	8.0	8.0

These figures reflect the potential increase on account of the Council House Reforms and may change following the final Settlement Payments Determination due out at the end of January 2012.

APPENDIX E

Institutions meeting the high credit ratings criteria (minimum credit quality) as at end of December 2011

This is based on UK Banks and Building Societies A-, Money Market Funds AAA, Foreign Banks AA-. Moving to a minimum A- rating for UK Banks and Building Societies will add a number of institutions to the Council's lending list, as indicated in the table below.

The individual counterparty limit is £2m except for banks within the same group ownership. These are treated as one bank for limit purposes. The country limit is £2m.

Instrument	Country Rating Fitch	Counterparty A- 2012/13 Strategy	Counterparty A+ 2011/12 Strategy
UK BANKS	**AAA**		
Term Deposits	*	HSBC Bank Plc	HSBC Bank Plc
Term Deposits	*	Standard Chartered Bank	Standard Chartered Bank
Term Deposits	**	Barclays Bank	
Term Deposits	**	Bank of Scotland (Lloyds Banking Group)	
Term Deposits	**	Lloyds TSB (Lloyds Banking Group)	
Term Deposits	**	National Westminster Bank (RBS Group)	
Term Deposits	**	Royal Bank of Scotland (RBS Group)	
Call Account	****	Santander UK Plc **(Member decision on whether to continue not to have on counterparty list)**	
BUILDING SOCIETIES			
Term Deposits	**	Nationwide	
AAA Rated MONEY MARKET FUNDS			
Call Account	***	Ignis Sterling Liquidity Fund	Ignis Sterling Liquidity Fund
Call Account	***	Goldman Sterling Liquid Reserves Fund	Goldman Sterling Liquid Reserves Fund

Instrument	Country Rating Fitch	Counterparty A- 2012/13 Strategy	Counterparty A+ 2011/12 Strategy
Call Account	***	Insight Sterling Liquidity Fund	Insight Sterling Liquidity Fund
Call Account	***	Prime Rate Sterling Liquidity Fund	Prime Rate Sterling Liquidity Fund
FOREIGN BANKS			
AUSTRALIA	**AAA**		
Term Deposits	*	Australia & NZ Banking Group	Australia & NZ Banking Group
Term Deposits	*	Commonwealth Bank of Australia	Commonwealth Bank of Australia
Term Deposits	*	National Australia Bank	National Australia Bank
Term Deposits	*	Westpac Banking Group	Westpac Banking Group
CANADA	**AAA**		
Term Deposits	*	Bank of Montreal	Bank of Montreal
Term Deposits	*	Bank of Nova Scotia	Bank of Nova Scotia
Term Deposits	*	Royal Bank of Canada	Royal Bank of Canada
Term Deposits	*	Toronto-Dominion Bank	Toronto-Dominion Bank
Term Deposits	*	Canadian Imperial Bank of Commerce	Canadian Imperial Bank of Commerce
NON-SPECIFIED			
Call Accounts	****	Co-operative Bank (UK) (PSR)	Co-operative Bank (UK) (PSR)

* Maximum limit to maturity of 3 months
** Maximum limit to maturity of 1 month
*** Maximum exposure limit of 10% of total investments per fund
**** Overnight limit