BABERGH DISTRICT COUNCIL

From: Head of Corporate Resources	**Report Number: M138**
To: Overview and Scrutiny (Stewardship) Committee	**Date of meeting: 22 January 2013**

DRAFT TREASURY MANAGEMENT STRATEGY 2013/14

1. Purpose of Report

1.1 To present the proposed treasury management strategy for 2013/14, which sets out the annual investment strategy for managing surplus funds and the borrowing strategy in accordance with the CIPFA Treasury Management Code of Practice in the Public Services (2011 edition).

1.2 The 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 key factors and information affecting treasury management activities set out in Appendix A be noted.

2.2 That the following are approved:

(a) The Treasury Management Policy Statement and the Policy for Managing the HRA Debt set out in Appendix B

(b) The Draft Treasury Management Strategy for 2013/14, including the Annual Investment Strategy, as set out in Appendix C

(c) The Draft Prudential Indicators and Limits for 2012/13 (revised) to 2015/16 set out in Appendix D

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

3. Financial Implications

3.1 Expected investment income in 2012/13 is likely to be about £63k compared to £72k in 2011/12 as investment rates have declined even further. Income generated from the investment of surplus funds is forecast to continue at these relatively low levels in 2013/14 and until such time as interest rates increase.

3.2 The revenue cost of borrowing in 2013/14 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 £434k, which covers the minimum revenue provision (MRP) for principal repayments and interest, should be sufficient to meet these costs although there are risks around the timing of anticipated capital receipts.

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.
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. We will 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 in the Public Services (2011 edition) at its meeting on 9 February 2012.

8.3 The key purpose of the TMSS is to approve:

- The proposed Treasury Management Strategy for 2013/14, including the Investment Strategy (Appendix C)
- Prudential Indicators for 2012/13 (revised), 2013/14, 2014/15 and 2015/16 (Appendix D)
- The MRP Statement (related to borrowing).

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

8.5 No treasury management activity is without risk. The successful identification, monitoring and control of risk are an integral element to treasury management activities and this includes Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

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

Debt

8.7 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.

8.8 The Council's current level of debt and investments is set out in Appendix F.

8.9 The Council is able to borrow in future years up to the projected level of its CFR, as set out in the Prudential Indicators, Appendix D. The Council is likely to only borrow in advance of need if it feels that the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

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 2013/14 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 2013/14 are set out in the attached appendices. Factors affecting the strategy are detailed in Appendix A, the 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 2013/14.

Investment of Surplus Funds

8.13 The proposed investment strategy for 2013/14 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 The minimum investment criteria for UK counterparties in the 2013/14 Strategy remains at A-. 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. A group limit of £3m is to be introduced for institutions within the same group.

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

Aspect	2013/14 Strategy
Specified Investments – High credit rated institutions	• The minimum criterion of A- for UK institutions is unchanged. • The minimum criterion of AA- for foreign banks is unchanged. • No US banks are included or foreign European Banks where the country does not have a AAA sovereign credit rating. • Group limit of £3m is to be introduced for institutions within the same group • The list of "high credit quality" investments has been expanded to include investments with Registered Social Landlords
Non-specified investments	• The only non-specified investment (for less than a year) will continue to be in an instant access call account with our 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 Section 151 Officer.

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 Section 151 Officer believe that it is not appropriate to lend to any banks with connections to countries that are experiencing severe economic difficulties. Santander UK plc do, however, meet all of the Council's credit rating criteria and they could be reinstated to the list of counterparties.

8.17 A list of the Banks and Building Societies that the Council is currently able to lend to (as at end of December 2012) is provided in Appendix E. The only addition would be Santander UK plc should Members approve this. The list will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated.

8.18 There remains very limited scope for placing investments in the Building Society sector. A number of building societies are unrated or are in the "junk / speculative" category. Typically local authorities have determined the building societies to use by their asset size because not all of them are rated. This does not look at the liabilities and does not measure growth or shrinkage within the business.

8.19 The period for which specified investments will be made is a key aspect of the investment strategy. This criterion for this is set out in Appendix C (see Section 21). In essence, a short-term investment strategy (up to 364 days) will remain the Council's core approach Investments in excess of 364 days are considered to be non-specified investments and will only be undertaken with prior approval of the Corporate Manager Financial Services.

Borrowing

8.20 As indicated in Table 1, Appendix C the Council currently has a 'gross' borrowing requirement of around £95m and will be required to borrow up to £95.5m by 2015/16. Consideration is given to all forms of borrowing/financing: Internal, PWLB, Other Local Authorities, Commercial banks, European Investment Bank (EIB), Capital Markets (stock issues, commercial paper and bills), Structured Finance, Leasing, etc.

8.21 After using internal funds, The PWLB, however, remains the most remains likely source of new external borrowing. Babergh has qualified to receive the "certainty rate" discount of 0.2% on PWLB loans taken out between 1 November 2012 and 31 October 2013.

8.22 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 and the Policy on Managing the Housing Revenue Account Debt	Attached
(c) Draft Treasury Management Strategy 2013/14	Attached

Title	Location
(d) Draft Treasury Management Indicators and Prudential Indicators 2013/14 to 2015/16	Attached
(e) Institutions meeting high credit ratings criteria (as at end of December 2012)	Attached
(f) Level of debt and investments (as at end of December 2012)	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. 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.

2. 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.

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.

	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

4. 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.

5. 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

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 S151 Officer, 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.

3. Policy for Managing the Housing Revenue Account Debt

3.1. Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

3.2. The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their TMSS.

3.3. On 1st April 2012, all of the existing loans were transferred to the HRA. In the future, new long-term loans borrowed will be assigned in their entirety to either the General Fund or the HRA. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

3.4. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each year and interest transferred between the General Fund and HRA at an internally determined rate of interest.

4. Policy on Use of Financial Derivatives

4.1. Some 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.

4.2. The Council 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 Council 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.

4.3. 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 and the relevant foreign country limit.

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

APPENDIX C

TREASURY MANAGEMENT STRATEGY 2013/14

1. Treasury Management is strictly regulated by statutory requirements. The Council has adopted the revised CIPFA Treasury Management Code of Practice in the Public Services (2011 edition).

2. The Local Government Act 2003 and supporting regulations require 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 how the movement in actual external debt and useable reserves combine to identify the Council's borrowing requirement and potential investment strategy in the current and future years.

Table 1 – Balance Sheet Summary Analysis

	Forecast 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m	Estimate 2015/16 £m
General Fund	5.7	5.9	7.4	7.7
Housing Revenue Account	89.3	88.8	88.3	87.8
TOTAL CFR	**95.0**	**94.7**	**95.7**	**95.5**
Less:				
Existing Profile of Borrowing and	(88.8)	(88.3)	(87.8)	(87.3)
Other Long Term Liabilities	(0)	0	0	0
Cumulative Maximum External Borrowing Requirement	**6.2**	**6.4**	**7.9**	**8.2**
Balances & Reserves				
General Fund	(3.1)	(1.6)	(1.6)	(1.6)
Housing Revenue Account	(1.6)	(1.6)	(3.3)	(5.5)
Cumulative Net Borrowing Requirement/(Investments)	**1.5**	**3.2**	**3.0**	**1.1**

Borrowing Strategy

6. 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 the 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. The cost of carry is likely to be an issue until 2016 or 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. As indicated in Table 1 above, the Council currently has a gross borrowing requirement (as reflected by the CFR) of around £95 million, which is estimated to increase to £95.5m by 2015/16. The Council will adopt a flexible approach to 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

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

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

9. 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.

10. A narrowing in the spread between borrowing and lending rates 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

11. 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.

12. 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 or repayment 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

13. 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 bi-annual treasury management reports.

Annual Investment Strategy

14. 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.

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

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

17. 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.

18. The Council defines the following categories of investment as being of "high credit quality" for making specified investments - subject to the monetary and sector

limits referred to in section 30 and shown in Table 4 and the time limits outlined in Appendix E..

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	✓	✓
m. Investments with Registered Providers	✓	✓

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

19. A change has been included within the investment strategy for 2013/14 in response to changes in the CLG Guidance and evolving conditions in financial markets. As a result, investments with registered providers of social housing have been included within specified and non-specified investments for 2013/14. Investments with registered providers will be analysed on an individual basis and discussed with Arlingclose prior to investing.

20. The minimum acceptable credit quality required by the Council includes the following minimum investment criteria (Fitch). Credit ratings are explained in Appendix E.

- UK Banks and Building Societies – A-

- Money Market Funds – AAA
- Foreign Banks – AA- (AAA sovereign rating only)

21. Local authorities are advised to have regard to the ratings issued 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 financial institutions of AA- or equivalent (sovereign rating AAA only)
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example a country's net debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay (common sense)

22. 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 Corporate Manager - Financial Services.

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

24. The countries and institutions that meet the criteria (as at 31 December 2012) for term deposits, Certificates of Deposit (CDs) and call accounts are included in Appendix E.

25. 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

26. 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

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

28. 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.

29. 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. In the case of Government MMF's, the Council will ensure exposure to each fund does not exceed 2% of the net asset value of the fund.

30. In addition to applying investment limits to individual institutions, clear 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 2012/13, 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). From 2013/14, the group limit for institutions within a banking group limit will be 1.5 times the individual limit of a single bank within that group.

Table 4 – Sector Limits

Sector Limits	Maximum limit of total investments 2013/14
UK Banks (Deposits & Call Accounts)	100%
UK Building Societies	25%
Deposits - Foreign Banks	40%
Money Market Funds	50%
Local Authorities	100%
DMADF	100%

The 2013/14 MRP Statement

31. 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.

32. The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

33. 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). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

34. As in previous years the Council will apply Option 2 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.

35. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to the Council at that time.

Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

35.1 The Section 151 Officer will report to Overview and Scrutiny (Stewardship) Committee on treasury management activity / performance and Performance Indicators as follows:

- Bi-annually against the strategy approved for the year.
- The Council will produce an outturn report on its treasury activity no later than 30 September after the financial year end.
- Overview and Scrutiny (Stewardship) Committee will be responsible for the scrutiny of treasury management activity and practices.

Training

36. CIPFA'S Code of Practice requires the responsible officer (Corporate Manager - Financial 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.

37. 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

38. The Council's treasury management advisors are Arlingclose Ltd whose contract commenced on 1 June 2010 for 2 years, with an option to extend which has been taken up. 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.

39. 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.

40. 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
- 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.

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

APPENDIX D

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2013/14 TO 2015/16

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. Gross Debt and the Capital Financing Requirement

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 Council 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.

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.

The Corporate Manager - Financial Services reports that the authority will have 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.

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 2012/13 £m	**Estimate 2013/14 £m**	**Estimate 2014/15 £m**	**Estimate 2015/16 £m**
General Fund (GF)	3.8	2.7	2.2	1.2
Housing Revenue Account (HRA)	5.1	6.6	5.4	5.6
TOTAL CAPITAL PROGRAMME	**8.9**	**9.3**	**7.6**	**6.8**

3.2 The capital expenditure in Table 1 is likely to be financed or funded as follows for the General Fund (GF) and the HRA:

Table 2 – Financing of Capital Programme

Capital Financing	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Capital receipts (GF)	0.4	1.8	0.1	0.1
Capital receipts (HRA)	0.2	0.3	0.2	0.2
Government Grants (GF)	0.5	0.4	0.2	0.2
Major Repairs Allowance / Depreciation (HRA)	2.5	3.4	3.4	3.5
Revenue contributions (HRA)	2.4	2.8	1.8	1.9
Total Financing	**6.0**	**8.7**	**5.7**	**5.9**
Unsupported borrowing (GF)	2.9	0.6	1.9	0.9
Total Funding	**2.9**	**0.6**	**1.9**	**0.9**
Total Financing and Funding	**8.9**	**9.3**	**7.6**	**6.8**

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 2012/13 %	**Estimate 2013/14 %**	**Estimate 2014/15 %**	**Estimate 2015/16 %**
GF	2.93%	4.46%	4.52%	6.52%
HRA	21.55%	19.26%	18.31%	17.34%

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

	Forecast 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m	Estimate 2015/16 £m
GF	5.7	5.9	7.4	7.7
HRA	89.3	88.8	88.3	87.8
Total CFR	**95.0**	**94.7**	**95.7**	**95.5**

6. Actual External Debt

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.

Table 5 – Actual External Debt as at 31 March

	Actual 31 March 2012 £m
Borrowing	89.3
Other Long-term Liabilities	0.2
Total	**89.5**

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 2013/14.

Table 6 – Incremental Impact on Council Tax and Housing Rents

	Estimate 2013/14 £	Estimate 2014/15 £	Estimate 2015/16 £
Council Tax at band D	5.21	1.00	5.42
Est. effect on Average weekly housing rent	0.00	0.00	0.00

(Figures to be confirmed)

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. excluding 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 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m	Estimate 2015/16 £m
Borrowing / CFR	95.0	94.7	95.7	95.5
Other Long Term Liabilities	0.0	0.0	0.0	0.0
Cash Flow Deficit / Margin	3.0	3.3	3.3	3.5
TOTAL	**98.0**	**98. 0**	**99.0**	**99.0**

8.5 The Operational Boundary has been set on the estimate of the most likely (the prudent but not worst case scenario) with sufficient headroom over and above this to allow for unusual cash movements.

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 S151 Officer 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 bi-annual Finance and Performance Report.

Table 8 – Operational Boundary for External Debt

	Forecast 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m	Estimate 2015/16 £m
Borrowing / CFR	95.0	94.7	95.7	95.5
Other Liabilities / Cash Flow Deficit	1.0	213	1.3	1.5
TOTAL	**96.0**	**96.0**	**97.0**	**97.0**

9. Adoption of the CIPFA Treasury Management Code to demonstrate that the Council has Adopted the Principles of Best Practice.

9.1 The Council approved the adoption of the CIPFA Treasury Management Code in the Public Services (2011 edition) at its meeting on 23 February 2012.

9.2 The Council has incorporated the requirements of this into the Treasury Management Strategy including its treasury policies, procedures and practices.

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

10.1 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 has no exposure to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt (likely to be short term borrowing for cash flow purposes) to offset exposure to changes in short-term rates on investments (likely to apply to overnight deposits and instant access accounts).

Table 10 – Interest Rate Exposure

Interest Rate Exposures apply to 2013/14 and the next 3 years to 2016/17		**%**
Fixed		
Upper Limit for Fixed Interest Rate Exposure on Debt	% of total borrowing	100
Upper Limit for Fixed Interest Rate Exposure on Investments	% of total investments	(100)
Net Fixed Exposure / Risk		**0**
Variable		
Upper Limit for Variable Interest Rate Exposure on Debt	% of total borrowing	30
Upper Limit for Variable Interest Rate Exposure on Investments	% of total investments	(75)
Net Variable Exposure / Risk		**(45)**

10.3 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.

11. 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 31/03/12 %	Lower Limit for 2013/14 and subsequent years %	Upper Limit for 2013/14 and subsequent years %
Under 12 months	0.6%	0%	50%
12 months and within 24 months	0.6%	0%	50%
24 months and within five years	1.7%	0%	50%
5 years and within 10 years	2.3%	0%	100%
10 years and within 20 years	41.4%	0%	100%
20 years and within 30 years	52.2%	0%	100%
40 years and above	1.2%	0%	100%

12. Credit Risk

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

12.2 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.

12.3 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 for UK institutions and AA- for non-UK institutions) and its sovereign (minimum AAA 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.

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

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

13.1 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 Corporate Manager Financial Services.

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

	Forecast 2012/13 £m	Estimate 2013/14 £m	Estimate 2014/15 £m	Estimate 2015/16 £m
Upper Limit for total principal sums invested over 364 days	2	2	2	2

14. Table 13 - HRA Limit on Indebtedness

This indicator shows the HRA CFR compared to the HRA CFR debt cap.

HRA Limit on indebtedness	2012/13 Forecast £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
HRA CFR	89.3	88.8	88.3	87.8
HRA Debt Cap (as Prescribed by CLG)	97.8	97.8	97.8	97.8
Difference	8.5	9.0	9.5	10.0

APPENDIX E

Institutions meeting the high credit ratings criteria (minimum credit quality) as at end of December 2012

This is based on UK Banks and Building Societies A-, Money Market Funds AAA, Foreign Banks AA-. Foreign banks must be in a country with a sovereign rating of AAA.

The individual counterparty limit is £2m. For banks within the same group ownership, the group limit is £3m. The country limit is £2m.

Instrument	Country Rating Fitch	Counterparty
UK BANKS	**AAA**	
Term Deposits & Certificates of Deposit	*	HSBC Bank Plc
Term Deposits & Certificates of Deposit	*	Standard Chartered Bank
Term Deposits & Certificates of Deposit	*	Barclays Bank
Term Deposits & Certificates of Deposit	**	Bank of Scotland (Lloyds Banking Group)
Term Deposits & Certificates of Deposit	**	Lloyds TSB (Lloyds Banking Group)
Term Deposits & Certificates of Deposit	**	National Westminster Bank (RBS Group)
Term Deposits & Certificates of Deposit	**	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 & Certificates of Deposit	*	Nationwide
FOREIGN BANKS		
AUSTRALIA	**AAA**	
Term Deposits & Certificates of Deposit	*	Australia & NZ Banking Group (Australia & NZ Banking Group)
Term Deposits & Certificates of Deposit	*	Commonwealth Bank of Australia
Term Deposits & Certificates of Deposit	*	National Australia Bank
Term Deposits & Certificates of Deposit	*	Westpac Banking Group
CANADA	**AAA**	
Term Deposits & Certificates of Deposit	*	Bank of Nova Scotia

Instrument	Country Rating Fitch	Counterparty
Term Deposits & Certificates of Deposit	*	Royal Bank of Canada
Term Deposits & Certificates of Deposit	*	Toronto-Dominion Bank
Finland	**AAA**	
Term Deposits & Certificates of Deposit	*	Nordea Bank
Netherlands	**AAA**	
Term Deposits & Certificates of Deposit	*	Bank Nederlandse Gemeenten NV (BNG)
Term Deposits & Certificates of Deposit	*	Rabobank
Sweden	**AAA**	
Term Deposits & Certificates of Deposit	*	Svenska Handelsbanken
NON-SPECIFIED		
Call Accounts	****	Co-operative Bank (UK) (PSR)
AAA Rated MONEY MARKET FUNDS (MMF)		
Call Account	***	Ignis Sterling Liquidity Fund
Call Account	***	Goldman Sterling Liquid Reserves Fund
Call Account	***	Insight Sterling Liquidity Fund
Call Account	***	Prime Rate Sterling Liquidity Fund
Call Account	***	BlackRock Institutional Sterling Liquidity Fund

* Maximum limit to maturity of 12 months
** Maximum limit to maturity of 6 months
*** Maximum exposure limit of 10% of total investments per fund
**** Overnight limit

MMFs – Prime Rate is domiciled in the UK for tax and administration purposes, Ignis Godman Sachs, BlackRock and Insight are domiciled in Ireland for tax and administration purposes.

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.
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.

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

	31/12/2012 Actual Portfolio £m
External Borrowing:	
Fixed Rate – PWLB	89.3
Fixed Rate – Market	0
Variable Rate – PWLB	0
Variable Rate – Market	0
Total External Borrowing	89.3
Other Long Term Liabilities:	
- PFI	0
- Finance Leases	0
Total Gross External Debt	89.3
Investments: *Managed in-house*	
- Short-term monies (Deposits/ monies on call /MMFs)	12.5
- Long-term investments	0
Total Investments	12.5