COUNCIL
28 FEBRUARY 2013

ITEM NO. 3 (c)

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY 2013/14

Councillor Stephen Harker - Efficiency and Resources Portfolio

Responsible Director - Paul Wildsmith, Director of Resources

SUMMARY REPORT

Purpose of the Report

1. This report requests Council to adopt the following:-

   (a) The Prudential Indicators and Limits for 2013/14 to 2015/16 relating to capital expenditure and Treasury Management activity.

   (b) A policy statement relating to the Minimum Revenue Provision.

   (c) The Treasury Management Strategy 2013/14, which includes the Investment Strategy for 2013/14.

2. The report outlines the Council's prudential indicators for 2013/14 – 2015/16 and sets out the expected treasury operations for this period. It fulfils key legislative and guidance requirements:

   (a) The reporting of the **prudential indicators** setting out the expected capital activities treasury management prudential indicators included as treasury indicators in the CIPFA Treasury Management Code of Practice

   (b) The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year.

   (c) The **treasury management strategy** statement which sets out how the Council's treasury service will support capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators.

   (d) The key indicator is the **authorised limit**, the maximum amount of debt the Council could afford in the short term, but which is not sustainable in the longer term.

(e) The **investment strategy** which sets out the Council's criteria for choosing the investment counterparties and limiting exposures to the risk of loss.

3. The information contained in the report regarding the Councils expenditure plans, Treasury Management and Prudential Borrowing activities indicate that they are:-

   (a) Within the statutory framework and consistent with the relevant codes of practice.

   (b) Prudent, affordable and sustainable.

   (c) An integral part of the Council's Revenue and Capital Medium Term Financial Plans.

4. This report was considered by Audit Committee at its special meeting on 18th January 2013 under their responsibilities for ensuring effective scrutiny of the treasury management and policies. Audit Committee resolved that it was satisfied with the Prudential Indicators and Treasury Management Strategy, as presented in this report and that the report be forwarded to Cabinet for its onward referral to Council for its consideration.

Recommendation

5. It is recommended that Council approves the following:-

   (a) The Prudential Indicators and limits for 2013/14 to 2015/16 summarised in Tables 1 and 2.

   (b) The Minimum Revenue Provision (MRP) statement contained within paragraph 26.

   (c) The Treasury Management Strategy 2013/14 to 2015/16 as summarised in paragraphs 35 to 54.

   (d) The Annual Investment Strategy 2013/14 contained in paragraphs 55 to 89.

Reasons

6. The recommendations are supported by the following reasons :-

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities and the Department for Communities and Local Government (CLG) guidance on investments.

   (b) To comply with the requirements of the Local Government Act 2003.

   (c) To approve a framework for officers to work within when making investment decisions.

Paul Wildsmith

Director of Resources

Background Papers

Annual Statement of Account 2011/12
Draft Capital MTFP 2013/14 to 2015/16

Elaine Hufford : Extension 2447

S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well being agenda.
Carbon Impact	This report has no implications for the Council's Carbon Emissions.
Diversity	This report has no implications for the Council's Diversity agenda.
Wards Affected	All Wards
Groups Affected	All Groups
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision
Urgent Decision	For the purposes of call in this report is not an urgent decision.
One Darlington: Perfectly Placed	This report has no particular implications for the sustainable Community Strategy.
Efficiency	The report refers to actions taken to reduce costs and manage risks.

MAIN REPORT

Information and Analysis

Background

7. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

8. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

9. CIPFA defines treasury management as:

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

Reporting requirements

10. The Council is required by legislation to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Prudential and Treasury Indicators and Treasury Strategy (This report)

11. The first, and most important report covers:

    (a) The capital plans (including prudential indicators).

    (b) A Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time).

    (c) The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators.

    (d) An investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report

12. This will update members with the progress on the capital position, amending prudential indicators as necessary, and whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

13. This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2013/14

14. The strategy for 2013/14 covers two main areas:

    (a) Capital Issues
        i. the capital plans and the prudential indicators;
        ii. the MRP strategy.

    (b) Treasury Management Issues
        i. the current treasury position;
        ii. treasury indicators which will limit the treasury risk and activities of the Council;
        iii. prospects for interest rates;
        iv. the borrowing strategy;
        v. policy on borrowing in advance of need;
        vi. debt rescheduling;
        vii. the investment strategy;
        viii. creditworthiness policy; and
        ix. policy on use of external service providers.

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

16. A summary of the key prudential indicators and limits are contained inTables 1 and 2.

Table 1 – Capital Expenditure and Borrowing

	2011/12 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
	£M	£M	£M	£M
Capital Expenditure	29.943	22.376	15.756	9.961
Capital financing requirement	171.739	170.420	168.355	163.751
Ratio of financing costs to net revenue stream – General Fund See paragraph 31	7.61%	7.20%	7.39%	7.5%
Ratio of financing costs to net revenue stream –HRA See paragraph 32	23.54%	16.77%	17.86%	17.73%
Incremental impact of **new** capital investment decisions on the band D Council Tax	£0.57	£0.68	£3.72	£6.76
Incremental impact of **new** capital investment decisions on Housing Rents levels	Nil	Nil	Nil	Nil
Operational boundary for external debt	134.900	134.000	132.500	131.500
Authorised limit for external debt	171.739	170.420	168.355	163.751

Table 2 – Treasury Management

	2013/14 Upper Limit	2014/15 Upper Limit	2015/16 Upper Limit
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	40%	40%	40%

Maximum principal sums invested > 364 days	£10M	£10M	£10M

Maturity Structure of fixed interest rate borrowing 2013/14		
	Lower Limit	**Upper Limit**
Under 12 months	0%	25%
12 months to 2 years	0%	40%
2 years to 5 years	0%	60%
5 years to 10 years	0%	80%
10 years and above	0%	100%

The Capital Prudential Indicators 2013/14 – 2015/16

17. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and acknowledge capital expenditure plans.

Capital Expenditure

18. This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 3 Capital Expenditure

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
General Fund	**21.653**	**16.221**	**9.586**	**3.330**
HRA	**8.290**	**6.155**	**6.170**	**6.631**
Total	**29.943**	**22.376**	**15.756**	**9.961**

19. The financing need below excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

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

Table 4 Financing of the Capital Programme

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
General Fund	21.653	16.221	9.586	3.330
HRA	8.290	6.155	6.170	6.631
Total	**29.943**	**22.376**	**15.756**	**9.961**
Financed by:				
Capital receipts	0.140	0.170	0.170	0.170
Capital grants	19.564	12.112	6.429	2.673
Capital Contributions	0.182	0.136		
Revenue Contributions (Housing)	7.470	5.642	5.657	6.118
Net financing need for the year Borrowing	**2.587**	**4.316**	**3.500**	**1.000**

The Council's Borrowing Need (the Capital Financing Requirement)

21. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

23. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £21.864M of such schemes within the CFR.

24. The Council is asked to approve the CFR projections below:

Table 5 – CFR Projections

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
CFR – General Fund	78.234	79.062	78.916	76.156
CFR – PFI and Finance leases	20.297	18.779	17.467	16.230
CFR - housing	73.208	72.579	71.972	71.365
Total CFR	**171.739**	**170.420**	**168.355**	**163.751**
Movement in CFR	**-3.048**	**-1.319**	**-2.065**	**-4.604**
Movement in CFR represented by				
Net financing need for the year (above) from Table 4	2.587	4.316	3.500	1.000
Less MRP General Fund	-3.442	-3.488	-3.646	-3.760
MRP PFI and Finance leases	-1.567	-1.518	-1.312	-1.237
MRP Housing	-0.626	-0.629	-0.607	-0.607
Movement in CFR	**-3.048**	**-1.319**	**-2.065**	**-4.604**

MRP Policy Statement

25. The Council is required to pay off an element of the accumulated General Fund (CFR) each year through a revenue charge (the minimum revenue provision - MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP).

26. CLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Policy Statement.

27. It is proposed that Darlington Borough Council's MRP Policy will be:

    (a) For capital expenditure incurred before 1 April 2008 and future expenditure supported through the revenue support grant – Existing Practice - MRP will follow the existing practice outlined in the former CLG Regulations. This method is based on 4% of the opening balance sheet non-housing CFR but allows for adjustments to the calculation based on figures prior to the implementation of the prudential code.

(b) From 1 April 2008 for all unsupported borrowing- Asset life Method - MRP will be based on the estimated life of the assets in accordance with the proposed regulations. Repayments will be made on either an annuity basis or a straight line basis.

(c) Repayments relating to finance leases including the PFI scheme will be made in accordance with the principal repayments embedded in the lease scheme over the life of the lease.

28. Repayments included in annual PFI or finance leases are applied as MRP.

Affordability Prudential Indicators

29. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

Estimates of the ratio of financing costs to net revenue stream.

30. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 6 - Ratio of financing costs to net revenue stream

	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
General Fund (excluding Direct Schools Grant)	7.61	7.20	7.39	7.50
HRA (inclusive of settlement)	23.54	16.77	17.86	17.73

31. The estimates of financing costs include current commitments and the proposals in this years MTFP report. General Fund shows a slight increase from 2013/14 due to the reduction of net expenditure for the Council rather than an increase in financing costs. The HRA financing costs ratio shows a significant drop from 2012/13 to 2013/14 because it included a voluntary repayment of debt which is now not included in the business plan for Housing and the cost of borrowing for the HRA settlement was lower than expected.

Estimates of the incremental impact of capital investment decisions on council tax

32. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the MTFP report compared to the Council's existing approved commitments and current plans. The assumptions are

based on £1.000m of prudential borrowing each year over the life of the MTFP and the new calculation of the council tax base which now excludes council tax benefit claimants from the calculation, which reduces the base from 34,845 to 29,581 which in turn increases the impact of the capital investment decisions on the band D council tax.

Table 7 Incremental impact of *new* capital investment decisions on the band D council tax

	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Council tax - band D	0.57	0.68	3.72	6.76

Estimates of the incremental impact of *new* capital investment decisions on housing rent levels

33. Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Table 8- Incremental impact of capital investment decisions on housing rent levels

	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Weekly housing rent levels	Nil	Nil	Nil	Nil

34. Housing Rent levels are set by a different mechanism so any changes in capital investments do not directly increase Housing Rents.

Treasury Management Strategy

Borrowing

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

Current Portfolio Position

36. The Council's treasury portfolio position at 31 March 2012, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 9 - Gross Borrowing to CFR

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Debt at 1 April	114.800	113.000	113.000	113.000
Other long-term liabilities (OLTL)	20.297	18.779	17.467	16.500
Actual debt at 31 March	**135.097**	**131.779**	**130.467**	**129.500**
The Capital Financing Requirement from Table 5	**171.739**	**170.420**	**168.355**	**163.751**
Under / (over) borrowing	**36.642**	**38.641**	**37.888**	**34.251**

37. Within the Prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that the borrowing is not undertaken for revenue purposes.

38. The Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This takes into account current commitments, existing plans, and proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

39. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher

40.
Table 10- Operational Boundary

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Debt	114.800	113.000	113.000	113.000
Other long term liabilities	20.100	19.000	17.500	16.500
Prudential Borrowing for leasable assets	0	1.000	1.000	1.000
Prudential Borrowing under Directors Delegated Powers	0	1.000	1.000	1.000
Operational Boundary	134.900	134.000	132.500	131.500

The Authorised Limit for external debt.

41. A further key prudential indicator represents a control on the maximum level of debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term:

(a) This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

(b) The Council is asked to approve the following Authorised Limit:

Table 11 – Authorised Limit

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Operational Boundary	134.900	134.000	132.500	131.500
Additional Headroom to Capital Financing requirement	36.839	36.420	35.855	32.251
Authorised Limit	171.739	170.420	168.355	163.751

42. It is proposed that the additional headroom for years 2013/14 to 2015/16 is to equal to the amount of additional borrowing that would bring the Council up to a position where it was no longer under borrowed and borrowing was equal to the Capital Financing Requirement. Whilst it is not expected that borrowing would be at these levels this would allow additional borrowing to take place should market conditions change suddenly and swift action was required.

43. Separately the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently £74.394M and is included within both the Operational Boundary and the Authorised Limit:

Table 12 – HRA Debt Limit

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Total	74.394	74.394	74.394	74.394

Prospects for Interest Rates

44. The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

Table 13- Interest Rate Forecast

Annual Average %	*Bank Rate*	*Money Rates*		*PWLB Borrowing Rates(including certainty rate adjustment)*		
		3 month	*12 month*	*5 year*	*25 year*	*50 year*
Dec2012	*0.50*	*0.50*	*0.92*	*1.50*	*3.70*	*3.90*
March 2013	*0.50*	*0.50*	*1.00*	*1.50*	*3.80*	*4.00*
June 2013	*0.50*	*0.50*	*1.00*	*1.50*	*3.80*	*4.00*
Sept 2013	*0.50*	*0.50*	*1.00*	*1.60*	*3.80*	*4.00*
Dec 2013	*0.50*	*0.50*	*1.00*	*1.60*	*3.80*	*4.00*
March 2014	*0.50*	*0.50*	*1.10*	*1.70*	*3.90*	*4.10*
June 2014	*0.50*	*0.60*	*1.10*	*1.70*	*3.90*	*4.10*
Sept 2014	*0.50*	*0.60*	*1.20*	*1.80*	*4.00*	*4.20*
Dec 2014	*0.50*	*0.70*	*1.30*	*2.00*	*4.10*	*4..30*
March 2015	*0.75*	*0.80*	*1.30*	*2.20*	*4.30*	*4.50*
June 2015	*1.00*	*1.10*	*1.50*	*2.30*	*4.40*	*4.60*
Sept 2015	*1.25*	*1.40*	*1.80*	*2.50*	*4.60*	*4.80*
Dec 2015	*1.50*	*1.70*	*2.10*	*2.70*	*4.80*	*5.00*
March 2016	*1.75*	*1.90*	*2.40*	*2.90*	*5.00*	*5.20*

** The certainty rate adjustment is a reduced rate by 0.20% for those councils like Darlington Borough Council who have submitted more detail on future borrowing requirement to the Treasury*

Economic Outlook provided by Sector (further detail in Appendix 2)

45. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers

focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

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

47. This challenging and uncertain economic outlook has several key treasury management implications:
    (a) The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods.
    (b) Investment returns are likely to remain relatively low during 2013/14 and beyond.
    (c) Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully.
    (d) There will remain a cost of carry- any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

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

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

    (a) If it was felt that there was a significant risk of a sharp FALL in long and short term rates (eg due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

    (b) If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

50. It is likely that no additional long term borrowing will be taken other than borrowing to cover maturing debt, however it may necessary to take some temporary borrowing for cashflow purposes should the need arise.

Treasury Management Limits on Activity

51. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

    (a) Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

    (b) Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

    (c) Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Table 14 Interest Rate Exposure

	2013/14	2014/15	2015/16
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2013/14			
		Lower	**Upper**
Under 12 months		0%	25%
12 months to 2 years		0%	40%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Policy on Borrowing in Advance of Need

52. The Council will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates,

and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Debt Rescheduling

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

54. The reasons for any rescheduling to take place will include:

    (a) the generation of cash savings and / or discounted cash flow savings;

    (b) helping to fulfil the treasury strategy;

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

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

Annual Investment Strategy

Investment and Creditworthiness Policy

56. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

57. In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

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

top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Sector.

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

60. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

61. The intention of the strategy is to provide security of investment and minimisation of risk.

62. Investment instruments identified for use in the financial year are listed in **Appendix 2** under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

Investment Counterparty Selection Criteria

63. The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

    (a) It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and

    (b) It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

64. The Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified (See appendix 3 for definitions) as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

65. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council’s minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council’s criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

66. Credit rating information is supplied by Sector, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

67. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

(a) Banks 1 - good credit quality – the Council will only use banks which:

i. are UK banks; and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

a. Short term – F1

b. Long term – A-

c. Viability / financial strength – bb+/c (Fitch / Moody's only)

d. Support – 3 (Fitch only)

(b) Banks 2 – Part nationalised UK banks – Lloyds Bank Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

(c) Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

(d) Building societies The Council will use all societies which:

i. meet the ratings for banks outlined above and have assets in excess of £1,000m

(e) Money Market Funds – AAA

(f) UK Government (including gilts Treasury Bills and the Debt Management Office)

(g) Local authorities, parish councils etc

(h) Supranational institutions

68. A limit of £10M will be applied to the use of Non-Specified investments.

Use of additional information other than credit ratings

69. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

70. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both Specified and Non-Specified Investments):

71. In order to determine time limits for investments the Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

(a) credit watches and credit outlooks from credit rating agencies;

(b) Credit Default Swap price spreads to give early warning of likely changes in credit ratings;

(c) sovereign ratings to select counterparties from only the most creditworthy countries.

72. The Council will therefore use the following durational bands when applying time limits to investments

(a)	Yellow	5 years *This only relates to AAA rated government debt or its equivalent
(b)	Purple	2 years
(c)	Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
(d)	Orange	1 year
(e)	Red	6 months
(f)	Green	3 months

Table 15 – Time and monetary limits applying to investments

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	**AA-**	**£5m**	**Maximum of 2 years** **Suggested duration using Sector colour coding (CDS adjusted with manual override)**
Banks 1 category lower quality	**A-**	**£3m**	**Maximum of 1 year** **Suggested duration using Sector colour coding (CDS adjusted with manual override)**
Banks 2 category – part nationalised	**N/A**	**£5m**	**Up to 2 years**
Limit 3 category – Council's banker (not meeting Banks 1and 2)		**£3m**	**1 day**
DMADF (Debt Management Office)	**AAA**	**unlimited**	**6 months**
Local authorities	**N/A**	**£5m**	**Up to 2 years**
Money market Funds	**AAA**	**£5m**	**liquid**

73. The proposed criteria for Specified and Non-Specified investments are shown in Appendix 3 for approval.

74. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

    (a) if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

    (b) in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

Investment Strategy

In-house funds

76. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term to medium term interest rates (i.e. rates for investments up to 2 years).

Investment returns expectations

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

(a) 2012/13 0.50%
(b) 2013/14 0.50%
(c) 2014/15 0.75%
(d) 2015/16 1.75%

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

79. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next three years are as follows

(a) 2012/13 0.50%
(b) 2013/14 0.50%
(c) 2014/15 0.60%
(d) 2015/16 1.50%

Investment treasury indicator and limit

80. Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

81. The Council is asked to approve the treasury indicator and limit: -

Table 16 – Maximum Principal sums invested

	2013/14	2014/15	2015/16
Principal sums invested greater than 364 days	£10m	£10m	£10m

82. For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 15 and 30 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Risk Benchmarking

83. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

84. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- **0.077% historic risk of default when compared to the whole portfolio.**

Liquidity – in respect of this area the Council seeks to maintain:

(a) Bank overdraft - £0.100m

(b) Liquid short term deposits of at least £3.000m available with a week's notice

(c) Weighted Average Life benchmark is expected to be 0.4 years, with a maximum of 1 year

85. Yield - local measures of yield benchmarks are:

(a) Investments – Short Term- cashflow investment rate returned against comparative interest rates

(b) Investments – Longer term – capital investment rates returned against comparative average rates

86. And in addition that the security benchmark for each individual year is:

Table 17 - Security Benchmark

	1 year	2 years
Maximum	**0.077%**	**0.077%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

End of year investment report

87. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Policy on the use of external service providers

88. The Council uses Sector as its external treasury management advisors. The company provides a range of services which include:

(a) Technical support on treasury matters, capital finance issues and the drafting of Member reports;

(b) Economic and interest rate analysis;

(c) Debt services which includes advice on the timing of borrowing;

(d) Debt rescheduling advice surrounding the existing portfolio;

(e) Generic investment advice on interest rates, timing and investment instruments;

(f) Credit ratings from the three main rating agencies and other market information on counterparties.

89. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

90. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Outcome of Consultation

91. No consultation was undertaken in the production of this report.

Economic Background

The Global Economy

1. The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4.

2. The Eurozone sovereign debt crisis has abated somewhat following the ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request and so surrendering its national sovereignty to IMF supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the time frame for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP i.e. unsustainably high. The question remains as to how much damage a Greek exit would do and whether contagion would spread to cause Portugal and Ireland to also leave the Euro, though the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

3. Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

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

5. Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it may be heading for a hard landing rather than a gradual slow down.

The UK Economy

6. The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone, our biggest trading partner, has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. It will be important for the Government to retain investor confidence in UK gilts so there is little room for it to change course other than to move back the timeframe.

7. Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth

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

Unemployment

9. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has

increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate

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

AAA Rating

11. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years. Moody's has stated that it will review the UK's AAA rating at the start of 2013.

Sector's Forward View

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

    (a) the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate were to become prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;

    (b) inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;

    (c) the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;

    (d) the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;

    (e) the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;

    (f) stimulus packages failing to stimulate growth;

    (g) elections due in Germany in 2013;

(h) potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

(i) the potential for action to curtail the Iranian nuclear programme

(j) the situation in Syria deteriorating and impacting other countries in the Middle East

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

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

15. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields:

    (a) UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields

    (b) Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held

    (c) Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone

    (d) Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth

    (e) The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's Aaa rating at the start of 2013).

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

1. The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

2. The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 21st March 2002 and will apply its principles to all investment activity. In accordance with the Code, the Director of Resources has produced its Treasury Management Practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

3. The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year*,* covering the identification and approval of following:

   (a) The strategy guidelines for choosing and placing investments, particularly non-specified investments.

   (b) The principles to be used to determine the maximum periods for which funds can be committed.

   (c) Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.

   (d) Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines

The main strategy guidelines are contained in the body of the treasury strategy statement.

All Investments

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

(a) Banks 1 - good credit quality – the Council will only use banks which:

   i. are UK banks; and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

      a. Short term – F1

      b. Long term – A-

      c. Viability / financial strength – bb+/c (Fitch/Moody's only)

      d. Support – 3 (Fitch only)

(b) Banks 2 – Part nationalised UK banks – Lloyds Bank Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

(c) Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

(d) Building societies The Council will use all societies which:
   ii. meet the ratings for banks outlined above and have assets in excess of £1,000m

(e) Money Market Funds – AAA

(f) UK Government (including gilts Treasury Bills and the Debt Management Office)

(g) Local authorities, parish councils etc

(h) Supranational institutions

Specified Investments

1. These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

   (a) The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).

   (b) Supranational bonds of less than one year's duration.

   (c) A local authority, parish council or community council.

   (d) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category d this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

(e) A body that is considered of a high credit quality (such as a bank or building society). For category e this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

2. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. is

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	**AA-**	**£5m**	**Maximum of 2 years** **Suggested duration using Sector colour coding (Credit Default Swap adjusted with manual override)**
Banks 1 category lower quality	**A-**	**£3m**	**Maximum of 1 year** **Suggested duration using Sector colour coding (Credit Default Swap adjusted with manual override)**
Banks 2 category – part nationalised	**N/A**	**£5m**	**Up to 2 years**
Limit 3 category – Council's banker (not meeting Banks 1and 2)		**£3m**	**1 day**
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**N/A**	**£5m**	**Up to 2 years**
Money market Funds	**AAA**	**£5m**	**liquid**

3. The Council will therefore use the following durational bands supplied by Sectors creditworthiness service when applying time limits to investments

(a) Yellow 5 years *This only relates to AAA rated government debt or its equivalent
(b) Purple 2 years
(c) Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
(d) Orange 1 year
(e) Red 6 months

(f) Green 3 months

Non-Specified Investments

4. Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	**The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.**	£3M
d.	Any **bank or building society** that has a minimum long term credit rating of AA- or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£10M in total

5. Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. Time limits will be applied to banks using the creditworthiness service provided by Sector. And for part-nationalised banks will be up to 2 years.

The Monitoring of Investment Counterparties

6. The credit rating of Counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Resources, and if required new counterparties which meet the criteria will be added to the list