CHESHIRE EAST COUNCIL

REPORT TO: CABINET

Date of Meeting:	6th February 2012
Report of:	Director of Finance and Business Services
Subject/Title:	Treasury Management Strategy and MRP Statement 2012/13
Portfolio Holder:	Councillor Michael Jones

1.0 Report Summary

1.1 To present the Treasury Management Policy and Strategy Statements for 2012/13 to 2014/15 including the prudential indicators and limits required under Part 1 of the Local Government Act 2003 and the Annual Investment Strategy 2012/13 and Annual Policy Statement on Minimum Revenue Provision (MRP) for the redemption of debt 2012/13.

1.2 Treasury Management is defined as:-

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

2.0 Decision Requested

Cabinet is requested to recommend to Council the approval of the:-

- Treasury Management Policy Statement (Appendix A)
- Treasury Management Strategy and the MRP Statement for 2012/13 (Appendix B)
- Revisions to the Treasury Management Strategy for 2011/12

The Strategy includes the Department for Communities and Local Government (DCLG) reporting requirements in accordance with the Local Government Investments Guidance under Section 15(1) (a) of the Local Government Act 2003.

3.0 Reasons for Recommendations

3.1 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2012/13. The Strategy for 2012/13 reflects the views on interest rates of leading market forecasts provided by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.

3.2 The CIPFA Code of Practice on Treasury Management, when adopted by a local authority, gives it the status of 'a code of practice made or approved by or under enactment' and hence proper practices under the provision of the Local Government and Housing Act 1989.

4 Wards Affected

4.1 Not applicable

5.0 Local Ward Members

5.1 Not applicable

6.0 Policy Implications including – Carbon Reduction, Health

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 Effective Treasury Management provides support towards the achievement of service priorities, it allows the Council to invest in capital projects without any limit as long as it can demonstrate that its capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury decisions are taken in accordance with good practice.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 It is a requirement of the CIPFA's Treasury Management in the Public Services: Code of Practice, that Council receives an Annual Report on its Treasury Strategy, that Council sets Prudential Indicators for the next three years and approves an Annual Investment Strategy and an Annual MRP Policy Statement. There are stringent legislative requirements in place which dictate the way that a local authority deals with financial administration.

9.0 Risk Management

9.1 The steps outlined in this report will significantly mitigate the main legal and financial risk to the council's financial management:

a. That council borrowing will comply with the Treasury Management Strategy

10.0 Background and Options

10.1 The Local Government and Public Involvement in Health Act 2007 places a requirement of all councils to approve a policy on how the amount provided in respect of the repayment of debt is calculated prior to the start of the financial year concerned. The Strategy for the year 2012/13 is contained in Appendix B. It links closely with the Council's Capital Strategy 2011-2014, which sets out the approach to capital investment and disposals over the next three years.

10.2 The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year capital spending plans, projected cash flow requirements and money market opportunities. The aim is to maintain control over borrowing activities, with particular regard for longer term affordability; but also to allow sufficient flexibility to respond to changes in the capital and money markets as they arise. The budgeted provision for the repayment of debt in the year 2012/13 has been broadly calculated as 4% of the estimated outstanding debt at the end of the year 2011/12. This is based on the assumption that debt will generally be repaid over 25 years. Where assets are to be funded from unsupported borrowing, debt repayments are profiled over the estimated life of the specific asset in question.

10.3 The amount provided for debt repayment is below the amount of capital expenditure being funded from borrowing in each of the next few years. As a consequence the amount of debt outstanding is increasing each year. As the level of outstanding debt increases the amount that needs to be provided for the repayment of debt in future years also increases. In order to reduce the amount of increasing debt year on year the Council may either use capital receipts as an alternative to borrowing or repay the debt more quickly.

10.4 The forecast for future capital receipts has remained at a prudent level for 2012-13 and therefore receipts of £6m will be made available to fund new schemes within the 2012/13 programme. The Council has implemented a Disposals Policy as part of the Asset Management Plan, where property assets which are not meeting the Council's objectives will be subject to asset challenge and a process of rationalisation and disposal for surplus/under-performing property will be adopted. The Council's Capital Receipts Policy will ensure that receipts are used in the most beneficial way to support corporate priorities and strategic objectives of the Council and all receipts will be pooled centrally.

10.5 Government support in capital terms has reduced significantly in recent years, which has particularly affected the schools, highways and housing strategy programmes.

10.6 Given the reductions in available funding the Council has undertaken prudential borrowing to fund £17m of new starts in 2012-13. The Council is conscious of the impact of repayment costs on the revenue budget and has only considered schemes where capital investment is required to secure long term revenue savings and repayment costs are affordable.

10.7 The Council has received a capitalisation direction from the Secretary of State enabling up to £3m of statutory redundancy payments to be treated as capital expenditure. This will provide flexibility for wider capitalisation opportunities beyond the funding of the capital programme.

10.8 **Capital Financing Budget 2012-13**

	£m
Repayment of outstanding debt	9.5
Interest on long term loans	6.4
Contribution from services towards the cost of borrowing	(0.8)
Total Debt Repayment	**15.1**
Less Interest receivable on cash balances	(0.3)
Net Capital Financing Budget	**14.8**

10.9 The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 4.04%). This provides a degree of certainty to the capital financing budget. The rate of interest payable on the £32 million of new long term loans that it is planned to raise during the year 2012/13 is budgeted to be 4.5%. Currently long term interest rates are around 4.1%. However, within the Treasury Management Strategy, the Council will use internal balances where possible to reduce the cost of carry in the short term of external borrowing.

10.10 The Council currently has debt outstanding of £129.3m. In 2010/11 the opportunity was taken to restructure £50m of debt by replacing a number of loans with an average interest rate of 4.22% with a new loan at a rate of 2.35%. The aim, based on refinancing of maturing date at 4.21%, was to generate savings over the next ten years of £4.47m of which £0.7m relates to 2012/2013. As debt has not been refinanced due to the use of temporary cash balances the actual savings achieved to date are £0.2m higher than anticipated

10.11 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used (estimated at £23 million) is budgeted to be 1.00%.

10.12 Cheshire East inherited investments made by the former Cheshire County Council with Heritable Bank, which went into administration in October 2008. Any expected losses associated with this were accounted for by Cheshire County Council in their accounts in 2008/2009. As at 31st March 2011 the balance sheet included investments with Heritable Bank of £1.54m of which £0.8m is expected to be repaid to Cheshire East BC by 31st March 2012. The remainder is expected to be received in instalments ending in January 2013. The accounts currently provide for recovery of 85% of the original investments, however, it is now anticipated that around 88% will be recovered. This will enable the impairment to be reduced and the revenue account increased by £200k in the 2011/12 accounts.

10.13 The principal changes to the 2012/13 Treasury Strategy (and amendments to the 2011/12 Treasury Strategy) have been:

- The lowering of the minimum long-term credit rating of financial institutions from A+/A1 to A-/A3.

  The Council will select financial institutions with a minimum long-term rating of A-/A3 and short-term rating of F1/P-1/A-1. The long-term rating of A- is two notches lower than the minimum of A+ adopted in 2011/12 and is in response to downgrades in the autumn of 2011 to the ratings of many institutions considered to be systemically important.

  The Council will also assess other indicators, such as credit default swaps, share prices, the sovereign's economic fundamentals, corporate developments highlighted through news articles and market sentiment. If any of these indicators give rise to concern, the counterparty may be suspended from further use irrespective of the existing credit rating.

  The revision to the credit criteria, once approved by Council for use in 2012/13, will also apply to the residual period of 2011/12.

- The inclusion of the gross and net debt prudential indicator. The effect of this indicator is to highlight where an authority may be borrowing in advance of cash requirement. CIPFA recommended the inclusion of this PI in the revised TM Code, issued in November 2011.

- The inclusion of a credit risk prudential indicator, as recommended in CIPFA's revised TM Code.

- The addition of Bank Nederlandse Gemeenten. Bank Nederlandse Gemeenten NV is a bank for local authorities and public sector institutions. The Bank specialises in providing medium and long-term lending to municipal authorities and their agencies in the Netherlands. The Bank is owned by the Dutch Government and also by the country's municipalities.

11.0 *Access to Information*

The background papers relating to this report can be inspected by contacting the report writer:

Name:	Lisa Quinn
Designation:	Director of Finance and Business Services
Tel No:	01270 686628
Email:	lisa.quinn@cheshireeast.gov.uk

Appendices:

Appendix A – Treasury Management Policy Statement
Appendix B – Treasury Management Strategy Statement & Investment Strategy 2012/13 – 2014/15

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

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

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

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

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

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

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

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

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

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

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

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

Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15

Contents

Annexes

1. Background

1.1 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 the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

1.2 CIPFA has defined Treasury Management as:
"the management of the organisation'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."

1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk

1.4 The strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators (Annex A) and the outlook for interest rates (Annex B).

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

- Revisions to the Treasury Management Strategy and Prudential Indicators for 2011/12
- Treasury Management Strategy for 2012-13 (Borrowing - Section 4, Debt Rescheduling - Section 5, Investments - Section 6)
- Prudential Indicators – Annex A (NB - PI No. 6 - The Authorised Limit is a statutory limit)
- Use of Specified and Non-Specified Investments – Annexes C & D

2. Balance Sheet and Treasury Position

2.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Useable Reserves are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

Table 1

	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
Capital Financing Requirement	210.8	232.9	247.0	251.6
Less: Existing Profile of Borrowing and Other Long Term Liabilities	-153.9	-147.9	-141.7	-130.9
Cumulative Maximum External Borrowing Requirement	56.9	85.0	105.3	120.7
Usable Reserves	-58.8	-53.3	-59.1	-62.1
Cumulative Net Borrowing Requirement/ (Investments)	**-1.9**	**31.7**	**46.2**	**58.6**

2.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

2.3 As the CFR represents the level of borrowing for capital purposes and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.

2.4 The projected analysis of actual borrowings and investments as at 31st March 2012 is:

Table 2

	31 Mar 12 Estimate £m	%
External Borrowing:		
Fixed Rate – PWLB	(111.5)	72
Fixed Rate – Market	(17.8)	12
Variable Rate – PWLB	-	-
Variable Rate – Market	-	-
Total External Borrowing	(129.3)	84
IFRS Long Term Liabilities:		
- PFI	(22.3)	14
- Finance Leases	(2.3)	2
Total Gross External Debt	**(153.9)**	**100**
Investments:		
Managed in-house		
- Short-term monies (Deposits/ monies on call /MMFs)	3.0	23
- Long-term investments *(maturities over 12 months)*	-	-
Managed externally		
- By Fund Managers	-	-
- Pooled Funds *(Investec)*	10.0	77
Total Investments	**13.0**	**100**
(Net Borrowing Position)/ Net Investment position	**(140.9)**	-

2.5 The estimate for interest payments in 2012/13 is £6.4m and for interest receipts is £0.3m.

3. Interest Rate Forecast

3.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Annex B. The Council will reappraise its strategy from time to time in response to evolving economic, political and financial events.

4. Borrowing Strategy

4.1 The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Annex A. The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year.

4.2 Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the Revenue Account.

4.3 Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

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

4.5 As indicated in Table 1, the Authority has a gross and net borrowing requirement and will be required to borrow up to £31.7m in 2012/13. The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. 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.

4.6 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:

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

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

4.8 Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2012/13. The "cost of carry" associated with medium and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in lieu of borrowing may again, in 2012/13, be the most cost effective means of financing capital expenditure.

4.9 The Council has three loans totalling £17m which are LOBO loans (Lender's Options Borrower's Option) of which two loans totalling £12m are currently in their call period. In the event that the lender exercises the option to change the rate or terms of these loans, the Council will consider the terms being provided and also repayment of the loans without penalty. The Council may utilise cash resources for repayment or may consider replacing the loans by borrowing from the PWLB.

5. Debt Rescheduling

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

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

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

5.3 Borrowing and rescheduling activity will be reported to the Cabinet in the Annual Treasury Management Report and the regular treasury management reports presented to the Cabinet.

6. Annual Investment Strategy

6.1 Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

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

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

6.4 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Annexes C and D. The Director of Finance and Business Services under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators.

6.5 A number of changes have been implemented to investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

Investments managed in-house

6.6 The Council's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates.

6.7 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the

DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.).

6.8 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

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

6.9 The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

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

6.11 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk. In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

6.12 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF.

Investments managed externally

Collective Investment Schemes (Pooled Funds):

6.13 The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

6.14 Investments in pooled funds will be undertaken with advice from Arlingclose. In December 2010 the Council agreed to invest in a Pooled Fund with Investec who were demonstrating good performance. Contracts were signed in May 2011 and £20m was invested (£10m in a standard model and £10m in a dynamic model). Performance has been mixed with the debt crisis in Europe affecting returns in August and September. The investments have not performed as well as originally intended although they are showing signs of picking up. These investments will vary with market conditions and are designed to deliver returns over a longer period of time. The performance of these investments will be kept under continual review.

7. Balanced Budget Requirement

7.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. 2012/13 MRP Statement

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

8.2 The four MRP options available are:

Option 1: Regulatory Method

MRP is equal to the amount determined in accordance with the 2003 Regulations (as amended), as if they had not been revoked by the 2008 Regulations

Option 2: CFR Method

MRP is equal to 4% of the Capital Financing Requirement (CFR), as derived from the balance sheet at the end of the preceding financial year

Option 3: Asset Life Method

MRP is determined by reference to the life of the asset, by equal instalment method or annuity method

Option 4: Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting

NB This does not preclude other prudent methods.

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

8.4 The MRP Statement will be submitted to Council before the start of the 2012/13 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

8.5 The Council will apply Option 2 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.

8.6 MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

9. Reporting on the Treasury Outturn

9.1 The Director of Finance and Business Services will report to the Cabinet on treasury management activity / performance as follows:

(a) Quarterly against the strategy approved for the year.

(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

(c) The Cabinet will be responsible for the oversight of performance on treasury management activity and practices.

9.2 An update on Treasury Management Investments and key activity will be reported to Corporate Management Team and Cabinet members on a weekly basis.

10. <u>Other items</u>

Training

10.1 CIPFA's Code of Practice requires the Director of Finance and Business 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.

10.2 Treasury management staff will have regular access to training opportunities to ensure they are fully up to date with developments. This will be delivered by a combination of workshops provided by Arlingclose and CIPFA technical updates.

10.3 Treasury management training for those members charged with governance will also be arranged during the 2012/13 financial year.

Investment Consultants

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

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and

- How the quality of any such service is controlled.

10.5 Cheshire East BC had appointed Arlingclose Ltd to advise on investments following a joint tender exercise carried out with Cheshire West and Chester Council. This arrangement came to an end on 31st December 2011 and interested parties were invited to tender. After evaluation a new contract was awarded to Arlingclose for a 3 year period ending on 31st December 2014. The Council expects to be kept regularly informed on any changes in opinion on potential counterparties with immediate notification of potential problems with any counterparties. A regular review is carried out by Arlingclose on all aspects of Cheshire East's investment activities.

ANNEX A

PRUDENTIAL INDICATORS 2012/13 TO 2014/15

1 Background:

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

2. Net Borrowing and the Capital Financing Requirement:

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

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

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

No. 1	**Capital Expenditure**	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
	Total	**77.0**	**73.7**	**83.9**	**47.8**	**26.0**

3.2 Capital expenditure will be financed as follows:

Capital Financing	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Capital receipts	15.3	16.5	14.3	7.2	6.6
Government grants	35.1	36.9	36.1	13.1	0.0
External contributions	1.4	3.0	0.2	0.1	0.0
Revenue contributions	1.1	1.0	0.6	0.5	0.0
Supported borrowing	4.1	5.5	1.8	0.5	0.0
Unsupported borrowing	20.0	10.8	30.9	26.4	19.4
Total	**77.0**	**73.7**	**83.9**	**47.8**	**26.0**

Note: the element to be financed from borrowing impacts on the movement in the Capital Financing Requirement.

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 borrowing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

No. 2	Ratio of Financing Costs to Net Revenue Stream	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
	Total	**5.59**	**5.59**	**6.01**	**7.15**	**8.56**

5. Capital Financing Requirement:

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

No. 3	Capital Financing Requirement	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
	Total CFR	**221**	**211**	**233**	**247**	**252**

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

No. 4	Actual External Debt as at 31/03/2011	£m
	Borrowing	134
	Other Long-term Liabilities	26
	Total	**160**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax 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 the proposed capital programme.

No. 5	Incremental Impact of Capital Investment Decisions	2011/12 Approved £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
	Increase in Band D Council Tax	2.33	6.02	19.05	21.00

8. Authorised Limit and Operational Boundary for External Debt:

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

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No. 6	**Authorised Limit for External Debt**	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
	Borrowing	213	222	245	259	265
	Other Long-term Liabilities	22	25	23	22	22
	Total	**235**	**247**	**268**	**281**	**287**

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

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

No. 7	**Operational Boundary for External Debt**	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
	Borrowing	203	212	235	249	255
	Other Long-term Liabilities	22	25	23	22	22
	Total	**225**	**237**	**258**	**271**	**277**

9. Adoption of the CIPFA Treasury Management Code:

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

No. 8	**Adoption of the CIPFA Code of Practice in Treasury Management**
	The Council approved the adoption of the revised 2011 CIPFA Treasury Management Code at its Council meeting on 6 February 2012.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Gross and Net Debt:

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

Upper Limit on Net Debt Compared to Gross Debt No. 9	2011/12 Estimated £m	2012/13 Estimated £m	2013/14 Estimated £m	2014/15 Estimated £m
Outstanding Borrowing (at nominal value)	129	210	225	230
Other Long-term Liabilities (at nominal value)	25	23	22	22
Gross Debt	**154**	**233**	**247**	**252**
Less: Investments	(13)	(34)	(29)	(25)
Net Debt	**141**	**199**	**218**	**227**

NB. CIPFA has acknowledged that the upper limit does not work as was intended and is working on a revised indicator. This indicator will be amended once revised guidance has been received from CIPFA.

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

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

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

		2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
No. 10	**Upper Limit for Fixed Interest Rate Exposure**	100	100	100	100	100
No. 10	**Upper Limit for Variable Interest Rate Exposure**	100	100	100	100	100

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

12. Maturity Structure of Fixed Rate borrowing:

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

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

No. 11	Maturity structure of fixed rate borrowing	Existing level as at 06/02/12 %	Lower Limit %	Upper Limit %
	under 12 months	13%	0	25%
	12 months and within 24 months	4%	0	25%
	24 months and within 5 years	18%	0	35%
	5 years and within 10 years	14%	0	50%
	10 years and within 20 years	14%	0	100%
	20 years and within 30 years	13%	0	100%
	30 years and within 40 years	7%	0	100%
	40 years and within 50 years	17%	0	100%
	50 years and above	0%	0	100%

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.

No. 12	Upper Limit for total principal sums invested over 364 days	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
		40	40	40	40	40

14. **Credit Risk:**

14.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

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

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

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

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

ANNEX B

Arlingclose’s Economic and Interest Rate Forecast

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Official Bank Rate													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk													
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.75**	**1.75**	**1.75**	**1.75**	**1.80**	**1.85**	**1.95**	**2.00**	**2.10**	**2.20**	**2.30**	**2.40**	**2.40**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.30**	**1.35**	**1.40**	**1.50**	**1.60**	**1.70**	**1.80**	**2.00**	**2.10**	**2.30**	**2.40**	**2.50**	**2.50**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**2.30**	**2.40**	**2.45**	**2.50**	**2.55**	**2.60**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**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
20-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.05**	**3.05**	**3.10**	**3.20**	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.60**	**3.75**	**3.75**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.40**	**3.50**	**3.60**	**3.70**	**3.80**	**3.90**	**4.00**	**4.00**	**4.00**	**4.10**	**4.20**	**4.25**	**4.25**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official UK interest rates rise.
- The UK's safe haven status, the direct effect of QE and minimal prospect of an increase in policy rates are expected to keep gilt yields at their lows in the near term.
- A disorderly outcome to the Eurozone sovereign crisis remains a key economic, credit and political risk.

Underlying Assumptions:

- Financial market stress is expected to remain a feature of 2012. Rates within Interbank markets (where banks fund the majority of their day to day operations) have continued to climb. This dynamic was a characteristic of the 2008 banking crisis and whilst the authorities have flooded the markets with liquidity, it is still a strong indicator of market risk.
- Inflation has moderated back to 4.8% in November. CPI is expected to drop gradually back towards the 2% target as the January 2011 VAT increase, the surge in oil prices and the large energy price hikes fall out of the twelve month comparison.
- Recent data and surveys suggest that since the summer the UK economy has lost the admittedly fragile momentum. Business and consumer surveys point to continued weakness in coming months. Public spending cuts, austerity measures, credit constraints, low business and consumer confidence could result in the economy stalling (Q3 excepted, when the 2012 Olympics will provide a temporary boost) and most likely pressure the Bank of England to provide further QE.

- Faltering global growth will not be helped by the considerable uncertainty and expansion of risks presented by the crisis in the Eurozone and gridlock in the US going into an election year. The knock-on effects could in turn weigh on growth in China and emerging market countries.
- Gilt supply is expected to be higher in 2012-13 than earlier forecast by the Treasury. However, over the short-term, gilts will retain their safe-haven status as euro area contagion risks grow.
- Sizeable European bond redemptions and refinancing (Italy in particular) in the first half of 2012 remain significant challenges. Headwinds to fiscal convergence and treaty changes could intensify downgrade pressures on the AAA core nations as well as peripheral countries. The effectiveness of the European Financial Stability Fund (EFSF) may prove limited, increasing the possibility of a sovereign failure or the break-up of the euro area.

Specified Investments

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

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

"Specified" Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury Bills (T-Bills)
- Local Authority Bills (LA Bills)
- Commercial Paper
- Corporate Bonds
- AAA-rated Money Market Funds
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. ** Investments in these instruments will be on advice from the Council's treasury advisor.*
2. *The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term/long-term ratings assigned by Moody's, Standard & Poor's and Fitch (where assigned):

Long-term minimum: A3 (Moody's) or A- (S&P) or A-(Fitch)
Short-term minimum: P-1 (Moody's) or A-1 (S&P) or F1 (Fitch).

In addition the Council will also make use of short term call accounts with the Councils current bankers, the Co-operative Bank, who do not meet the Council's minimum creditworthiness criteria, although the ratings do.

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

New specified investments will be made within the following limits:

Instrument	Country	Counterparty	Maximum Limit of Investments %/£m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts/CDs	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts/CDs	UK	Bank of Scotland/Lloyds TSB	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	Barclays	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	Clydesdale (inc Yorkshire Bank)	15% up to £15m
Call Accounts	UK	Co-Operative Bank	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	HSBC	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	National Westminster Bank (note – part of RBS group)	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	Nationwide Building Society	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	Royal Bank of Scotland	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	Santander (UK)	15% up to £15m
Term Deposits/Call Accounts/CDs	UK	Standard Chartered Bank	15% up to £15m
Term Deposits/Call Accounts/CDs	Australia	Australia and NZ Banking Group	15% up to £15m
Term Deposits/Call Accounts/CDs	Australia	Commonwealth Bank of Australia	15% up to £15m
Term Deposits/Call Accounts/CDs	Australia	National Australia Bank Ltd	15% up to £15m
Term Deposits/Call Accounts/CDs	Australia	Westpac Banking Corp	15% up to £15m
Term Deposits/Call Accounts/CDs	Canada	Bank of Montreal	15% up to £15m
Term Deposits/Call Accounts/CDs	Canada	Bank of Nova Scotia	15% up to £15m
Term Deposits/Call Accounts/CDs	Canada	Canadian Imperial Bank of Commerce	15% up to £15m
Term Deposits/Call Accounts/CDs	Canada	Royal Bank of Canada	15% up to £15m
Term Deposits/Call Accounts/CDs	Canada	Toronto-Dominion Bank	15% up to £15m
Term Deposits/Call Accounts/CDs	Finland	Nordea Bank Finland	15% up to £15m
Term Deposits/Call Accounts/CDs	France	BNP Paribas	15% up to £15m

Term Deposits/Call Accounts/CDs	France	Credit Agricole CIB	15% up to £15m
Term Deposits/Call Accounts/CDs	France	Credit Agricole SA	15% up to £15m
Term Deposits/Call Accounts/CDs	France	Societie Generale	15% up to £15m
Term Deposits/Call Accounts/CDs	Germany	Deutsche Bank AG	15% up to £15m
Term Deposits/Call Accounts/CDs	Netherlands	Bank Nederlandse Gemeenten	15% up to £15m
Term Deposits/Call Accounts/CDs	Netherlands	ING Bank NV	15% up to £15m
Term Deposits/Call Accounts/CDs	Netherlands	Rabobank	15% up to £15m
Term Deposits/Call Accounts/CDs	Sweden	Svenska Handelsbanken	15% up to £15m
Term Deposits/Call Accounts/CDs	Switzerland	Credit Suisse	15% up to £15m
Term Deposits/Call Accounts/CDs	US	JP Morgan Chase Bank	15% up to £15m
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Commercial Paper	Approved Sovereigns	Large Corporation/Financial Institution/Government Agency	10%
Corporate Bonds	Approved Sovereigns	Large Corporation/Financial Institution/Government Agency	10%
Bonds issued by multilateral development banks	EU	For Example: European Investment Bank/Council of Europe	25% up to £20m
AAA rated Money Market Funds	UK/Ireland/ Luxembourg	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	25% up to £20m per fund Limit of 50% in all funds
Other MMFs and CIS	UK/Ireland/ Luxembourg	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments –	25% up to £20m

Note: If the credit rating of any of the above institutions falls below the minimum criteria then no further investments will be made with that institution until their credit ratings increase to at least the minimum criteria. Similarly if institutions whose credit ratings are currently below the minimum criteria and, therefore, not listed above have their credit ratings re-assessed so that they meet the minimum criteria then they may be considered suitable for investment (limits for UK institutions set at 15% up to £15m and non-UK institutions set at 15% up to £15m).

The above limits will also apply to banking groups where institutions are part of the same group (i.e where two or more named institutions are part of the same group of companies then the limit applies to the aggregate of investments with all institutions within the group).

A limit of 40% of total investments to apply to investments in non-UK banks at any one time with a limit of 25% of total investments in any one non-UK country.

Where practical any investments in Money Market Funds should be spread between at least two funds.

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

Non-Specified Investments

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	✓ ✓	 ✓	2 yrs	25% in aggregate	No
Gilts and bonds ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	✓	10 years	75% in aggregate	No
Money Market Funds and Collective Investment Schemes but which are not credit rated	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	50%	No
Government guaranteed bonds and debt instruments issued by corporate bodies	✓	✓	10 years	25%	**Yes**
Non-guaranteed bonds and debt instruments issued by corporate bodies	✓	✓	10 years	25%	**Yes**
Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	50%	**Yes**

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.