

Treasury Management Strategy Statement and Investment Strategy 2011/12

Contents

- 1. Background**
- 2. Balance Sheet and Treasury Position**
- 3. Outlook for Interest Rates**
- 4. Borrowing Requirement and Strategy**
- 5. Investment Policy and Strategy**
- 6. Balanced Budget Requirement**
- 7. 2011/12 MRP Statement**
- 8. Reporting**
- 9. Other Items**

Appendices

- A. Current and Projected Portfolio Position
- B. Prudential Indicators
- C. Interest Rate Outlook: The Council's, Arlingclose's
- D. Specified Investments for use by the Council
- E. Non- Specified Investments for use by the Council
- F. Glossary of Terms

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") requires local authorities to determine the Treasury Management Strategy Statement (TMSS). This statement also incorporates the Investment Strategy. Together, these cover the financing and investment strategy for the forthcoming financial year.

1.2 CIPFA has defined Treasury Management as:

"the management of the organisation's 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 (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

2. Balance Sheet and Treasury Position

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31/03/11 Estimate £'000	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000
CFR	9,352	9,226	9,164	9,134
Usable Capital Receipts	(28,473)	(30,434)	(28,266)	(27,205)
Balances & Reserves	(5,925)	(5,667)	(5,672)	(5,700)
Net Balance Sheet Position	(25,046)	(26,875)	(24,774)	(23,771)

2.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. 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 (currently nil) 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.
- 2.4 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 the 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.
- 2.5 The estimate for interest payments in 2011/12 is nil and for interest receipts is £799,620.

3. Outlook for Interest Rates

- 3.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix C. The Council will reappraise its strategy from time to time and, if needs be, realign it in line with market conditions and expectations for future interest rates.

4. Borrowing Requirement and Strategy

- 4.1 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 The cumulative estimate of the maximum long-term borrowing requirement is estimated by comparing the projected CFR with the profile of the current portfolio of external debt and long term liabilities over the same financial horizon, as follows:

	31/03/11 Estimate £'000	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000
Capital Financing Requirement (CFR)	9,352	9,226	9,163	9,134
Less:				
Existing Profile of Borrowing and Other Long Term Liabilities	239	113	50	21
Cumulative Maximum External Borrowing Requirement	9,113	9,113	9,113	9,113
Balances & Reserves	0	0	0	0
Cumulative Net Borrowing Requirement (Call on capital receipts)	9,113	9,113	9,113	9,113

- 4.5 The Council's strategy is to maintain maximum control over any potential long term borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimize borrowing costs over the medium to longer term (should SSDC decide to borrow). A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.
- 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

The outlook for borrowing rates:

- 4.7 Following the CSR announcement which increased the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:
- Variable rate borrowing
 - Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
 - Long-term Maturity loans, where affordable.
- 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 and maintaining stability. 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 2011/12. 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 2011/12, be the most cost effective means of financing capital expenditure.

- 4.9 The Council will undertake a financial options appraisal before any borrowing is made.
- 4.10 For any borrowing that may be undertaken in advance of need the Council will adopt the same rigorous policies and approach to the protection of capital as it does for the investment of its surplus balances.

5. Investment Policy and Strategy

Background

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

Investment Policy

- 5.2 To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The CLG's Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

- 5.3 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 Appendix D.
- 5.4 Changes to the investment strategy for 2011/12 include:
- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds
 - Treasury Bills
 - Local Authority Bills
 - Term deposits in Sweden
 - Maximum duration for new deposits 2 years
- 5.5 The Council's current level of investments is shown at Appendix A.

Investment Strategy

- 5.6 The UK Bank Rate has been maintained at 0.5% since March 2009, and it is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income. The Medium Term Financial Plan has been updated to reflect the impact of long term low interest rates to ensure that the security of the sums invested remains paramount.

5.7 The Assistant Director (Finance and Corporate 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. Decisions taken on the core investment portfolio will be reported to the Audit Committee on a quarterly basis.

Investments managed in-house:

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

5.9 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)

5.10 The table below shows the strategic approach to treasury management and the overall portfolio should include investments within the following ranges dependant on overall economic conditions:

	%
Fund Managers and pooled managed funds	0% - 25%
Term Deposits (up to 2 years)	0% - 75%
3 – 5 year cash deposits	0% - 25%
1 – 5 year callable deposits	0% - 15%
1 – 10 year Eurosterling/Corporate Bonds	0% - 75%

5.11 This approach aims to promote a diverse mix of investments with funds placed aiming to give some measure of certainty and stability. The main aim however will be to minimise risk.

5.13 The Council selects countries and institutions within them, for the counterparty list after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
- Credit Default Swaps (where quoted)
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution
- Share Price (where quoted)
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment

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.

5.14 To protect against a prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix D). The longer-term investments will be likely to include:

- **Supranational bonds (bonds issued by multilateral development banks):** Even at lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.
- **Term Deposits with counterparties rated at least A+ (or equivalent)**

Investments managed externally

5.15 Currently the Council has no externally managed funds. However the following may be used once fully evaluated and with advice from Arlingclose;

5.16 Funds managed on a segregated basis: the Council will continue to evaluate funds managed externally. Fund Managers may be able to add value through the use of investments contained in Appendix D

5.17 Collective Investment Schemes (Pooled Funds): The Council will continue to evaluate the use of Pooled Funds and determine 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. Balanced Budget Requirement

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

7. 2011/12 MRP Statement

Background:

7.1 For many years local authorities were required by Statute and associated Statutory Instruments to charge to the Revenue Account an annual provision for the repayment of debt associated with expenditure incurred on capital assets. This charge to the Revenue Account was referred to as the Minimum Revenue Provision (MRP). In practice MRP represents the financing of capital expenditure from the Revenue Account that was initially funded by borrowing.

7.2 In February 2008 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] were approved by Parliament and became effective on 31 March 2008. These regulations replaced the formula based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new regulations required a local authority to determine each financial year an amount of MRP which it considers to be prudent. Linked to this new regulation, the Department of Communities and Local Government (CLG) produced Statutory Guidance which local authorities are required to follow, setting out what constitutes a prudent provision.

7.3 The CLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by the Full Council.

- 7.4 The broad aim of the Policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits. In the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant. Where a local authority's overall CFR is £nil or a negative amount there is no requirement to charge MRP.
- 7.5 The move to International Financial Reporting Standards (IFRS) has meant that many Operating Leases have had to be reclassified as Finance Leases and been brought on Balance Sheet. Where this is the case, such items are classed in accounting terms as a form of borrowing. CLG has therefore proposed amending the Capital Finance Regulations to ensure that the impact on the Revenue account is neutral, with MRP for these items matching the principal repayment embedded within the lease agreement.

MRP Options:

- 7.6. Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below:

Option 1 – Regulatory Method:

- 7.7 This method replicates the position that would have existed under the previous Regulatory environment. MRP is charged at 4% of the Authority's underlying need to borrow for capital purposes, however this option allows a historical adjustment to take place that is beneficial to some authorities. This method can only be used for supported expenditure.

Option 2 – CFR Method:

- 7.8 This method simplifies the calculation of MRP by basing the charge solely on the authority's CFR but excludes the technical adjustments included in Option 1. The annual MRP charge is set at 4% of the CFR at the end of the preceding financial year. This method can only be used for supported expenditure.

Option 3 – Asset Life Method:

- 7.9 Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated by either of the following methods:
- (a) Equal Installments: where the principal repayment made is the same in each year,
or
 - (b) Annuity: where the principal repayments increase over the life of the asset.
The annuity method has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset.
- 7.10 MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.

- 7.11 The estimated life of the asset will be determined in the year that MRP commences and cannot be revised. However, additional repayments can be made in any year which will reduce the level of payments in subsequent years.
- 7.12 If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure, where this would exceed 50 years.
- 7.13 In instances where central government permits revenue expenditure to be capitalised, the Statutory Guidance sets out the number of years over which the charge to revenue must be made.
- 7.14 MRP in respect of Operating Leases brought on Balance Sheet under IFRS falls under Option 3.

Option 4 - Depreciation Method:

- 7.15 The depreciation method is similar to that under Option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practices to be charged to the Income and Expenditure account

MRP Policy for 2011/12:

- 7.16 It is proposed that for 2011/12 the Council adopts Option 3 – Asset Life Method. Option 3 enables the calculation of MRP to be aligned with the life of the asset. If it is ever proposed to vary the terms of this MRP Statement during the year, a revised statement will be made to Council at that time.

8. Reporting on Treasury Management

The scrutiny of the treasury management function is carried out by the Audit Committee who then make recommendations to Full Council. The Assistant Director (Finance and Corporate Services) will report to Council/Audit Committee on treasury management activity / performance as follows:

- (a) Audit Committee will be responsible for the scrutiny of treasury management activity and practices.
- (b) Audit Committee will review the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators twice per year and recommend them to Council for Approval
- (c) Audit Committee will monitor Treasury Management activity quarterly and annually and will approve the Treasury Management Practices on an annual basis
- (d) Full Council will receive the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators prior to the start of the financial year and a mid year review against the strategy approved for the year.
- (e) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

9. Other Items

Training

CIPFA's revised Code requires the Assistant Director (Finance and Corporate Services) to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Officers tasked with treasury management responsibilities are engaged in regular financial and treasury training through attendance at selective seminars/workshops and treasury courses.

Treasury Consultants

The CLG's Draft revisions to its 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.

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 2009 and Arlingclose was reappointed. Among the various services received is **advice** on capital financing, borrowing and investments appropriate to the Council's individual circumstances and objectives.

The Council monitors the service through measuring:

- The timeliness of advice
- The returns from investments
- The accuracy of technical advice
- Regular market testing
- Regular internal meetings to discuss performance
- Measurement through CIPFA's benchmarking club
- Direct access to a nominated advisor
- The quality and content of training courses

However, this doesn't divest the Council from its responsibility of its treasury decisions.

Publication

The CLG's Draft revisions to its Guidance on local government investments recommend that the initial strategy and any revised strategy should, when approved, be made available to the public free of charge, in print or online.

The Council makes available online its Treasury Management Strategies within the finance section of the website. This includes both the initial strategy as well as any revisions. Should any member of the public request a printed copy, this would be provided free of charge.

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/10 £'000	31/03/11 Estimate £'000	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000
External Borrowing:	0	0	0	0	0
Long-term liabilities					
- Finance Leases	445	239	113	50	21
Total External Debt	445	239	113	50	21
Investments:					
<i>Managed in-house</i>					
• Deposits and monies on call and Money Market Funds	21,960	20,870	27,560	28,609	34,585
• Supranational bonds	11,851	13,526	9,209	7,101	1,101
• Corporate bonds	5,337	5,243			
Total Investments	39,148	39,639	36,769	35,710	35,686
(Net Borrowing Position)/ Net Investment position	38,703	39,400	36,656	35,660	35,665

PRUDENTIAL INDICATORS 2010/11 TO 2012/13

Background:

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

Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the 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.

The Assistant Director Finance and Corporate Services reports that the authority had no difficulty meeting this requirement in 2010/11, 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.

Prudential Indicator 1 - Capital Expenditure:

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. The actual expenditure for 2009/10 and the estimates of capital expenditure to be incurred for the current and future years are:

	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Approved capital schemes	6,446	8,828	5,034	1,850	403
Investments	0	0	0	0	0
Reserves	1,932	2,667	1,168	803	600
New Schemes for 2010/11 start	0	0	307	0	0
Total Expenditure	8,378	11,495	6,509	2,653	1,003

The figures in the later years are lower at this stage but will increase as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure. This shows how much of the revenue budget is committed to the servicing of finance.

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2009/10 are:

Portfolio	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Financing Costs*	(2,218)	(1,074)	(673)	(383)	(208)
Net Revenue Stream	19,765	20,682	17,345	16,356	16,255
%*	(11.2)	(5.2)	(3.9)	(2.3)	(1.3)

*Figures in brackets denote income through receipts or reserves.

The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figures are in brackets due to investment income outweighing financing costs significantly for SSDC. This shows the extent that the Council is dependent on investment income.

The percentages are falling as the revenue stream increases, i.e. the budget requirement is becoming larger and the investment income smaller as more capital is spent.

Prudential Indicator 3 - Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Estimates of the year-end capital financing requirement for the authority are:

	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Opening CFR	9,738	9,558	9,352	9,226	9,164
Capital Expenditure	6,446	8,828	5,034	1,850	403
Capital Receipts*	(4,353)	(4,447)	(1,370)	(885)	342
Grants/Contributions*	(2,093)	(4,381)	(3,664)	(965)	(61)
MRP	(180)	(206)	(126)	(62)	(30)
Closing CFR	9,558	9,352	9,226	9,164	9,134

*Figures in brackets denote income through receipts or reserves.

The capital financing requirement has changed due to the way we need to account for leases.

Prudential Indicator 4 – Net external Borrowing compared to the medium term Capital Financing Requirement:

The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Net Borrowing*	(38,198)	(48,376)	(46,434)	(44,266)	(43,205)
CFR	9,558	9,352	9,226	9,164	9,134

*The figures in brackets show the estimated level of investments we currently have.

Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. Overall the authority is aiming to keep within the following exposure to fixed rates as and when market conditions improve.

	2009/10 % Actual	2010/11 % Probable Outturn	2011/12 % Limit	2012/13 % Limit	2013/14 % Limit
Fixed	38.7	26.3	80	80	80
Variable	61.3	73.7	100	100	100

The Council must also set limits to reflect any borrowing we may undertake.

	2009/10 % Actual	2010/11 % Probable Outturn	2011/12 % Limit	2012/13 % Limit	2013/14 % Limit
Fixed	0	0	100	100	100
Variable	0	0	100	100	100

The indicator has been set at 100% to maximise opportunities for future debt as they arise.

Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:

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.

Upper Limit for total principal sums invested over 364 days	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Between 1-2 years	8,604	3,209	25,000	25,000	25,000
Between 2-3 years	3,296	6,000	20,000	20,000	20,000
Between 3-4 years	2,001	1,136	10,000	10,000	10,000
Between 4-5 years	1,160	0	10,000	10,000	10,000
Over 5 years	0	0	5,000	5,000	5,000

The estimates are considerably higher than the actual balances held in 2009/10 and 2010/11 to ensure the Council has sufficient flexibility to deal with any unexpected events. **The overall limit for maturities of greater than 364 days will not exceed 70% of the portfolio.**

Prudential Indicator 7 - Actual External Debt:

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.

Actual External Debt as at 31/03/2010	£'000
Borrowing	0
Other Long-term Liabilities	445
Total	445

Prudential Indicator 8 - Authorised Limit for External Debt:

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.

This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council has acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. The results for 2009/10 and 2010/11 show that this limit has not been used. A £9.1m borrowing requirement has been identified to finance the capital programme and further borrowing may be undertaken to increase our borrowing to this level if and when it is the most cost effective way of funding SSDC's requirements. A ceiling of £12 million for each of the next three years is recommended, to allow flexibility to support new capital projects over and above the identified borrowing requirement.

The move to local authorities implementing International Financial Reporting Standards (IFRS) has had implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's leases against IFRS implications have resulted in the related assets and liabilities being brought onto the Council's balance sheet.

	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Borrowing	0	0	11,600	11,600	11,600
Other Long-term Liabilities	445	239	400	400	400
Total	445	239	12,000	12,000	12,000

Prudential Indicator 9 – Operational Boundary for External Debt:

The Operational Boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million is recommended for each of the next three years. The table overleaf shows that SSDC's current borrowing is well within this limit. This indicator more than covers the capital financing requirement.

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

	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Borrowing	0	0	9,700	9,700	9,700
Other Long-term Liabilities	445	239	300	300	300
Total	445	239	10,000	10,000	10,000

Prudential Indicator 10 - Maturity Structure of Fixed Rate borrowing:

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.

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.

Maturity structure of fixed rate borrowing	2009/10 % Actual	2010/11 % Probable Outturn	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rated external borrowing at present the above upper and lower limits have been set to allow flexibility to borrow within any of the maturity bands.

Prudential Indicator 11 - Incremental Impact of Capital Investment Decisions:

SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figures below actually show the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	2009/10 Approved £	2010/11 Approved £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Decrease in Band D Council Tax	0.92	0.20	0.20	0.20	0.20

Prudential Indicator 12 - Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 th April 2002.
--

Arlingclose's Economic and Interest Rate Forecast

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Official Bank Rate											
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50	3.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-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
Central case	2.00	2.25	2.75	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central case	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-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
Central case	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow and uneven.
- The initial reaction to the CSR is positive, but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Underlying Assumptions

- The framework and targets announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt will be put to the test; meeting the 2010 borrowing target of £149bn will be crucial to the gilt market's confidence in the credibility of the deficit reduction plans.
- Despite Money Supply being weak and growth prospects remaining subdued, the MPC has gravitated towards increasing rates in the new year as global inflation continues to rise along with household inflation.
- Consumer Price Inflation is stubbornly above 3% and is likely to spike above 4% in the first quarter of 2011 as a result of VAT, Utilities and Rail Fares.

- Unemployment remains near a 16 year high, at just over 2.5 Million, and is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is mainly due to part time work, leaving many with reduced income
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore the outlook for growth.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

Specified and Non Specified Investments

Specified Investments identified for use by the Council

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

“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)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- 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 and long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings.

Long-term minimum: A1 (Moody's) or A+ (S&P) or A+(Fitch)

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

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/ Domicile	Counterparty	Maximum Counterparty Limits %/£m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	

Our Current Counterparty list is as follows:

Instrument	Country	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£
Term Deposits	UK	DMADF, DMO	No limit	
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit	
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£6,000,000	
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£6,002,000	£9,002,000
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£6,000,000	
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£6,000,000	
Term Deposits/Call Accounts	UK	Clydesdale (This is part of the NAB group which has a combined limit of £6m)	£6,000,000	£6,000,000
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£6,000,000	
Term Deposits/Call Accounts	UK	Nationwide Building Society	£6,000,000	
Term Deposits/Call Accounts	UK	Royal Bank of Scotland	£6,000,000	
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£6,000,000	
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£6,000,000	
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£6,000,000	
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	See Clydesdale above	£6,000,000
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£6,000,000	
Term Deposits/Call Accounts	Canada	Bank of Montreal	£6,000,000	

Instrument	Country	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£6,000,000	
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£6,000,000	
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£6,000,000	
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£6,000,000	
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£6,000,000	
Term Deposits/Call Accounts	France	BNP Paribas	£6,000,000	
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£6000,000	£6,000,000
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£6,000,000	
Term Deposits/Call Accounts	France	Societe Generale	£6,000,000	
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£6,000,000	
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£6,000,000	
Term Deposits/Call Accounts	Netherlands	Rabobank	£6,000,000	
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£6,000,000	
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£6,000,000	
Term Deposits/Call Accounts	US	JP Morgan	£6,000,000	

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

Non-Specified Investments determined for use by the Council

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?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies 	<p>✓</p> <p>✓</p>	<p>✓</p>	5 yrs	70% in aggregate	No
<ul style="list-style-type: none"> ▪ 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 	<p>✓ (on advice from treasury advisor)</p>	<p>✓</p>	10 years	70% in aggregate	No
Money Market Funds and Collective Investment Schemes which are not credit rated	<p>✓ (on advice from treasury advisor)</p>	<p>✓</p>	These funds do not have a defined maturity date	50%	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies (e.g. govt bonds issued by HBOS / RBS / Nationwide, etc)	<p>✓</p>	<p>✓</p>	10 years	£15m	Yes

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	✓	✓	10 years	£5m	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	£5m	Yes

Investments which constitute capital expenditure will not in aggregate exceed £20m.

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.

Glossary of Terms

Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
ECB	European Central Bank

Federal Reserve	The US central bank. (Often referred to as “the Fed”)
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
Gilt	Is a fixed rate security issued as debt and repaid at a future date.
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’
Maturity	The date when an investment or borrowing is repaid
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Pooled funds	See Collective Investment Schemes (above)
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice
Prudential Indicators	Indicators determined by the local authority to define the its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
SI (Statutory Instrumeny)	Is the principal form in which delegated or secondary legislation is made in Great Britain.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).

Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Supported Capital Expenditure	The financing element of Capital expenditure that is grant funded by Central Government
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Capital Expenditure	The financing of Capital expenditure is financed internally through the revenue budget
Yield	The measure of the return on an investment instrument