**Appendix 1**

# South Somerset DC
# Treasury Management Strategy Statement and Investment Strategy 2012/13

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## 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 (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

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 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.

1.4 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 activies

- 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.

1.5 Full 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.

1.6 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Corporate Director (Finance and Corporate Services) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.

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

1.8 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.

1.9 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.

1.10 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.

1.11 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.

1.12 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:

| | 31/03/12 Estimate £'000 | 31/03/13 Estimate £'000 | 31/03/14 Estimate £'000 | 31/03/15 Estimate £'000 |
|---|---|---|---|---|
| CFR | 9,435 | 9,309 | 9,213 | 9,124 |
| Usable Capital Receipts | (39,104) | (36,014) | (31,338) | (29,413) |
| Balances & Reserves | (4,979) | (5,321) | (6,633) | (5,325) |
| **Net Balance Sheet Position** | **(34,648)** | **(32,026)** | **(28,758)** | **(25,614)** |

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 underlying need to borrow 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 2012/13 is nil and for interest receipts is £508,820

## 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 in response to evolving economic, political and financial events.

## 4. Borrowing Requirement and Strategy

4.1 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 appendix C 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.

4.2 As indicated in the following table, the authority has a gross borrowing requirement of £9m in 2012/13 but has sufficient balances and reserves to avoid the need for external borrowing. By essentially lending its own surplus funds to itself the Authority is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances

| | **31/03/12 Estimate £'000** | **31/03/13 Estimate £'000** | **31/03/14 Estimate £'000** | **31/03/15 Estimate £'000** |
|---|---|---|---|---|
| **Capital Financing Requirement (CFR)** | 9,435 | 9,309 | 9,213 | 9,123 |
| **Less:** Existing Profile of Borrowing and Other Long Term Liabilities | (322) | (196) | (100) | (10) |
| Cumulative Maximum External Borrowing Requirement | (9,113) | (9,113) | (9,113) | (9,113) |
| Capital Receipts, Balances & Reserves | (44,083) | (41,335) | (37,971) | (34,738) |
| **Cumulative Net Borrowing Requirement (Investments/Call on capital receipts)** | **(44,083)** | **(41,335)** | **(37,971)** | **(34,738)** |

4.3 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.

4.4 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
- Leasing

4.5 The Council will undertake a financial options appraisal before any borrowing is made.

4.6 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

### Investment Policy

5.1 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.

### Annual Investment Strategy

5.2 Investments are categorised as 'Specified' or 'Non Specified' investments within the investment guidance issued by the CLG.

5.3 Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else. The types of investments that will be used by the Authority and whether they are specified or non-specified are in Appendix D.

5.4 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 now means that from 1st April 2012, the accounting of any corporate bonds which we may purchase after this date will be classified as a non-capital investment. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

5.5 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 counterparts; 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

Any institution can be suspended or removed should any of the factors identified above give rise to concern. The Countries and institutions that meet the criteria for term deposits, Certificate of Deposit (CDs) and call accounts are included in Appendix D

**Investment Strategy**

5.6 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.

5.7 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.

5.8 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. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

5.9 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.

The Council's current level of investments is shown at Appendix A.

5.10 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)

**Investments managed externally**

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

5.12 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

5.13 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. 2012/13 MRP Statement

**Background:**

7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 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.

7.2 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.

7.3 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.

**MRP Options:**

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

**Option 1 – Regulatory Method:**

7.5 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:**

7.6 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:**

7.7 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.

7.8 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.

7.9 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.

7.10 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.

7.11 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.

**Option 4 - Depreciation Method:**

7.12 The deprecation 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 2012/13:**

7.13 It is proposed that for 2012/13 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.

7.14 MRP in respect of leases 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.

## 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.

## The Use of Financial Instruments for the Management of Risks

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

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

APPENDIX A

**EXISTING PORTFOLIO PROJECTED FORWARD**

| | 31/03/11 Actual £'000 | 31/03/12 Estimate £'000 | 31/03/13 Estimate £'000 | 31/03/14 Estimate £'000 | 31/03/15 Estimate £'000 |
|---|---|---|---|---|---|
| **External Borrowing:** | | | | | |
| Long-term liabilities<br>- Finance Leases | 301 | 322 | 196 | 100 | 10 |
| **Total External Debt** | **301** | **322** | **196** | **100** | **10** |
| **Investments:**<br>*Managed in-house*<br>• Deposits and monies on call and Money Market Funds | 20,000 | 33,073 | 26,987 | 31,338 | 29,413 |
| • Supranational bonds | 13,538 | 13,157 | 9,027 | 0 | 0 |
| • Corporate bonds | 5,195 | 0 | 0 | 0 | 0 |
| **Total Investments** | **38,733** | **46,230** | **36,014** | **31,338** | **29,413** |
| **(Net Borrowing Position)/ Net Investment position** | **38,432** | **45,908** | **35,818** | **31,238** | **29,403** |

APPENDIX B

## PRUDENTIAL INDICATORS 2012/13 TO 2014/15

**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 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.

**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 2010/11 and the estimates of capital expenditure to be incurred for the current and future years are:

| | **2010/11 Actual £'000** | **2011/12 Probable Outturn £'000** | **2012/13 Estimate £'000** | **2013/14 Estimate £'000** | **2014/15 Estimate £'000** |
|---|---|---|---|---|---|
| Approved capital schemes | 5,812 | 5,526 | 3,526 | 390 | 30 |
| Reserve schemes | 2,461 | 3,507 | 1,279 | 600 | 0 |
| New Schemes for 2012/13 start | 0 | | 533 | | |
| **Total Expenditure** | **8,273** | **9,033** | **5,338** | **990** | **30** |

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 2010/11 are:

| Portfolio | 2010/11 Actual £'000 | 2011/12 Probable Outturn £'000 | 2012/13 Estimate £'000 | 2013/14 Estimate £'000 | 2014/15 Estimate £'000 |
|---|---|---|---|---|---|
| Financing Costs* | (1,084) | (767) | (397) | (261) | (232) |
| Net Revenue Stream | 20,716 | 17,984 | 16,577 | 16,687 | 16,238 |
| **%*** | **(5.2)** | **(4.3)** | **(2.4)** | **(1.6)** | **(1.4)** |

*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 finance costs have reduced at a faster rate than the Net Revenue Stream. This is because capital expenditure has been incurred (reducing balances held in capital receipts) and the rate of interest that we can achieve on our investments has drastically fallen due to maturities and early redemptions of Supranational bonds.

**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:

| | 2010/11 Actual £'000 | 2011/12 Probable Outturn £'000 | 2012/13 Estimate £'000 | 2013/14 Estimate £'000 | 2014/15 Estimate £'000 |
|---|---|---|---|---|---|
| Opening CFR | 9,461 | 9,414 | 9,435 | 9,310 | 9,213 |
| Capital Expenditure | 5,812 | 5,526 | 3,526 | 390 | 30 |
| Capital Receipts* | (2,734) | (3,730) | (3,117) | 322 | 93 |
| Grants/Contributions* | (3,078) | (1,796) | (409) | (712) | (123) |
| MRP | (208) | (182) | (125) | (97) | (89) |
| Additional Leases taken on during the year | 161 | 203 | 0 | 0 | 0 |
| **Closing CFR** | **9,414** | **9,435** | **9,310** | **9,213** | **9,124** |

*Figures in brackets denote financing through receipts or reserves.

As a result of agreeing a capital programme year by year, and the fact that we anticipated a large income stream from Lufton 2000, the current position is showing an abnormal contribution to capital receipts in 2013/14 and 2014/15 (as opposed to the usual funding from capital receipts).

**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.

| | 2010/11 Actual £'000 | 2011/12 Probable Outturn £'000 | 2012/13 Estimate £'000 | 2013/14 Estimate £'000 | 2014/15 Estimate £'000 |
|---|---|---|---|---|---|
| Net Borrowing* | (37,936) | (46,230) | (36,014) | (31,338) | (29,413) |
| CFR | 9,414 | 9,435 | 9,310 | 9,213 | 9,124 |

*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.

| | 2010/11 % Actual | 2011/12 % Probable Outturn | 2012/13 % Limit | 2013/14 % Limit | 2014/15 % Limit |
|---|---|---|---|---|---|
| Fixed | 32.9 | 14.3 | 80 | 80 | 80 |
| Variable | 67.1 | 85.7 | 100 | 100 | 100 |

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

| | 2010/11 % Actual | 2011/12 % Probable Outturn | 2012/13 % Limit | 2013/14 % Limit | 2014/15 % 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 | 2010/11 Actual £'000 | 2011/12 Probable Outturn £'000 | 2012/13 Estimate £'000 | 2013/14 Estimate £'000 | 2014/15 Estimate £'000 |
|---|---|---|---|---|---|
| Between 1-2 years | 3,218 | 9,027 | 25,000 | 25,000 | 25,000 |
| Between 2-3 years | 6,000 | 0 | 20,000 | 20,000 | 20,000 |
| Between 3-4 years | 1,174 | 0 | 10,000 | 10,000 | 10,000 |
| Between 4-5 years | 0 | 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 2010/11 and 2011/12 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 – Gross and Net Debt:**

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

| | 2011/12 Probable Outturn £'000 | 2012/13 Estimate £'000 | 2013/14 Estimate £'000 | 2014/15 Estimate £'000 |
|---|---|---|---|---|
| Outstanding Borrowing (at nominal value) | 0 | 0 | 0 | 0 |
| Other long-term liabilities (at nominal value) | 322 | 196 | 100 | 10 |
| **Gross Debt** | **322** | **196** | **100** | **10** |
| **Less: Net Investments** | **(46,230)** | **(36,014)** | **(31,338)** | **(29,413)** |
| **Net Debt** | **(45,908)** | **(35,818)** | **(31,238)** | **(29,403)** |

**Prudential Indicator 8 – Credit Risk:**

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

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

The Council 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 and its sovereign
- 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

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

**Prudential Indicator 9 - 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 31/03/2011** | **£'000** |
|---|---:|
| Borrowing | 0 |
| Other Long-term Liabilities | 301 |
| **Total** | **301** |

**Prudential Indicator 10 - 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 2010/11 and 2011/12 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.

| | **2010/11 Actual £'000** | **2011/12 Approved £'000** | **2011/12 Probable Outturn £'000** | **2012/13 Estimate £'000** | **2013/14 Estimate £'000** | **2014/15 Estimate £'000** |
|---|---:|---:|---:|---:|---:|---:|
| Borrowing | 0 | 11,000 | 0 | 11,000 | 11,000 | 11,000 |
| Other Long-term Liabilities | 301 | 1,000 | 322 | 1,000 | 1,000 | 1,000 |
| **Total** | **301** | **12,000** | **322** | **12,000** | **12,000** | **12,000** |

**Prudential Indicator 11 – 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.

| | 20010/11 Actual £'000 | 2011/12 Approved £'000 | 2011/12 Probable Outturn £'000 | 2012/13 Estimate £'000 | 2013/14 Estimate £'000 | 2014/15 Estimate £'000 |
|---|---|---|---|---|---|---|
| Borrowing | 0 | 9,200 | 0 | 9,200 | 9,200 | 9,200 |
| Other Long-term Liabilities | 301 | 800 | 322 | 800 | 800 | 800 |
| **Total** | **301** | **10,000** | **322** | **10,000** | **10,000** | **10,000** |

**Prudential Indicator 12 - 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 | 2010/11 % Actual | 2011/12 % 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 13 - 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 | 2011/12 Approved £ | 2012/13 Estimate £ | 2013/14 Estimate £ | 2014/15 Estimate £ |
|---|---|---|---|---|
| Decrease in Band D Council Tax | 0.20 | 0.34 | 0.33 | 0.33 |

**Prudential Indicator 14 - 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 18th April 2002. |

## 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 | | | | | | | | | | | | | |
| 3-month LIBID | | | | | | | | | | | | | |
| Upside 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 |
| Central case | 1.00 | 1.00 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| 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 |
| 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 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| 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 |
| 5-yr gilt | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Central case | 1.20 | 1.30 | 1.40 | 1.50 | 1.60 | 1.70 | 1.80 | 2.00 | 2.00 | 2.00 | 2.10 | 2.15 | 2.25 |
| 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 |
| 10-yr gilt | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Central case | 2.10 | 2.15 | 2.30 | 2.40 | 2.50 | 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 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Central case | 3.00 | 3.05 | 3.10 | 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 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Central case | 3.20 | 3.40 | 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 |

- Momentum in economic growth is scarce.
- 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 interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

## Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.
- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.

- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

APPENDIX D

## 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 and subsequent amendments.

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

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities (including Police 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
- 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 and subsequent amendments.

*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: A3 (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 (including Police Authorities) | No limit |
| Term Deposits/Call Accounts/CDs | UK | Counterparties rated at least A- Long Term and F1 Short Term (or equivalent) | See following table |
| Term Deposits/Call Accounts/CDs | 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+ | See following table |
| Gilts | UK | DMO | No limit |
| T-Bills | UK | DMO | No limit |
| LA-Bills | UK | Other UK Local Authorities | No limit |
| Commercial Paper | | Counterparties rated at least A- Long Term and F1 Short Term (or equivalent) | (6,000,000 |
| Bonds issued by multilateral development banks | | (For example, European Investment Bank/Council of Europe, Inter American Development Bank) | N/A |
| AAA-rated Money Market Funds | UK/Ireland/ Luxembourg domiciled | CNAV MMFs<br>VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value) | Will not exceed 0.5% of the net asset value of the MMF |
| 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 | £6,000,000 |

Under the new proposal our Current Counterparty list would be 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<br>(Banco Santander Group) | £6,000,000 | |
| Term Deposits/Call Accounts | UK | Bank of Scotland<br>(Lloyds Banking Group) | £6,002,000 | £9,002,000 |
| Term Deposits/Call Accounts | UK | Lloyds TSB<br>(Lloyds Banking Group) | £6,000,000 | |
| Term Deposits/Call Accounts | UK | Barclays Bank Plc | £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 | £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 | Netherlands | Bank Nederlandse Gemeenten | £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?** |
|---|---|---|---|---|---|
| ▪ Deposits with banks and building societies<br>▪ Certificates of deposit with banks and building societies | ✓<br>✓ | ✓ | 5 yrs | 70% in aggregate | No |
| ▪ Gilts<br>▪ Bonds issued by multilateral development banks<br>▪ Bonds issued by financial institutions guaranteed by the UK government<br>▪ Sterling denominated bonds by non-UK sovereign governments | ✓ (on advice from treasury advisor) | ✓ | 10 years | 70% in aggregate | No |
| Money Market Funds and Collective Investment Schemes which are not credit rated | ✓ (on advice from treasury advisor) | ✓ | These funds do not have a defined maturity date | 50% | No |
| bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies | ✓ | ✓ | 10 years | £10m | No |
| Collective Investment Schemes (Pooled funds) which do not meet the definition of | ✓ (on advice from treasury advisor) | ✓ | These funds do not have a defined maturity date | £5m | Yes |

| | **In-house use** | **Use by fund managers** | **Maximum maturity** | **Max % of portfolio** | **Capital expenditure?** |
|---|---|---|---|---|---|
| collective investment schemes in SI 2004 No 534 or SI 2007 No 573 or subsequent amendments | | | | | |

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.

## 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 |