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Meeting	Cabinet Resources Committee
Date	30 November 2010
Subject	**Treasury Management Strategy**
Report of	Cabinet Member for Resources and Performance
Summary	To approve the Treasury Management Strategy including the borrowing strategy, cash management strategy, the duration of investments permissible, the investment counter party list and investment counterparty criteria.

Officer Contributors	Andrew Travers – Deputy Chief Executive and Chief Finance Officer John Hooton – Assistant Director of Strategic Finance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix – Treasury Management Strategy
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: John Hooton, Assistant Director of Strategic Finance, on 020 8359 2460 or Karen Bannister, Treasury Manager, on 020 8359 7119.

1. RECOMMENDATIONS

1.1 That the revised Treasury Management Strategy, including the borrowing and cash management strategies and the investment counterparty criteria, be approved. The key amendments to the strategy are set out in paragraph 9.7, including amendments to the duration of investments and the counterparty list.

2. RELEVANT PREVIOUS DECISIONS

2.1 Cabinet Resources Committee, 25 March 2008 (Decision item 18) – Treasury Management Business Strategy.

2.2 Cabinet, 23 October 2008 (Decision item 12) – Council Deposits in Icelandic Banks.

2.3 The Leader of the Council and Cabinet Member for Resources approved under delegated powers (DPR 712) on 5 December 2008 the Treasury Management Strategy 2008/09 – Deposit Counterparty Limits.

2.4 Cabinet Resources Committee, 19 January 2009 (Decision item 16) – Treasury Management Strategy.

2.5 Cabinet Resources Committee, 30 March 2009 (Decision item 13) – Treasury Management Strategy.

2.6 Cabinet Resources Committee, 16 March 2010 (Decision item 9) – Treasury Management Strategy 2010/11.

2.7 Special Committee (Constitution Review), 25 March 2010 (Decision item 8) – Amending the Council's Financial Regulations.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The Treasury Management Strategy provides a clear framework within which the treasury management activity of the Council can operate and provides a set of policy guidelines to support the achievement of one of the Council's corporate priorities – 'Better Services with Less Money. The Council is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques to ensure effective delivery of the Strategy.

4. RISK MANAGEMENT ISSUES

4.1 Borrowing and deposit rates are determined by the market and can be volatile at times. This risk is mitigated by monitoring the interest rate market in conjunction with treasury advisors and brokers, and by proactively managing the debt and investment portfolios.

4.2 The placement of deposits carries inherent risk with regard to the robustness of the counterparty and therefore the potential loss of the cash deposited. This is mitigated within the Strategy by defining the criteria for placing funds with counterparties to ensure it is commensurate with the risk appetite of the Council.

4.3 An update on treasury management activities are made to this Committee on at least a quarterly basis in order to give Members greater insight into Treasury Management decisions and to report on compliance with the policies agreed by Members.

4.4 The Strategy seeks to minimise the cost of borrowing and maximise interest generated on investments but within the confines of a relatively risk adverse approach and thereby avoids exposing the Council to unnecessary financial risks.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 The Council's capital programme and budget is set to ensure that resources are allocated in line with the Council's priorities and equal opportunities legislation, ensuring that there are strong links between the capital budget and the key priority plans for each service. The resulting capital expenditure enables the Council to invest in the long-term future of the Borough to provide benefit to residents. Capital expenditure is funded from a number of sources of which borrowing is one of them. The Council's corporate priorities and their aligned budgets will also support the Council in meeting its public duties.

6. USE OF RESOURCES IMPLICATIONS (FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS)

6.1 One of the prime objectives of CIPFA's code of practice on Treasury Management and subsequent Treasury Policy Statements is to ensure that, by using prudent and proper practices, the financial resources of local authorities are protected and best utilised.

6.2 Within the annual budget and Council Tax setting process, the Council includes estimates for borrowing and deposit interest levels. The possibility of debt restructure will be kept under constant review in light of the Council's needs and market conditions, including interest rate forecasts.

6.3 As interest rates are not expected to rise significantly by the end of 2010/11, there will be a budget pressure in the current year which will be lessoned by the slight relaxation of the Investment Strategy. This may negate the need to make further reductions in the interest income budget projections for 2011/12.

7. LEGAL ISSUES

7.1 These are addressed within the body of the report.

8. CONSTITUTIONAL POWERS

8.1 Part 1, Section 7 (Treasury Management Framework) of the Financial Regulations section of the Council's Constitution states:

(1) The Council adopts the key recommendations contained in "The Prudential Code for Capital Finance in Local Authorities – Interim Guidance & Notes Supplement" (CIPFA, February 2004), "Treasury Management in the Public Services: Code of Practice" (CIPFA,2001) and any subsequent recommended good practice by CIPFA.

Adherence to Prudential Code

(2) Cabinet Resources Committee will create and maintain a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities.

(3) The Chief Financial Officer will create and maintain suitable Treasury Management Practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control these activities.

The content of the policy statement and TMPs will predominantly follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the organisation. Such amendments will not result in the authority materially deviating from the Code's key recommendations.

(4) Cabinet Resources Committee will receive reports on its treasury management activities, including an annual strategy and plan in advance of the year, and an annual report after its close in the form prescribed in the TMPs. These reports will incorporate the prudential borrowing limits and performance indicators.

(5) The Chief Finance Officer has the delegated authority to undertake long term borrowing on behalf of the Authority and will issue a Delegated Powers Report immediately after this power is exercised to inform Members.

This organisation delegates responsibility for the implementation and the monitoring of its treasury management policies and practices to the Executive and the updating of the Treasury Management Practices, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practices on Treasury Management.

8.2 The Treasury Management Strategy 2010/11, set out in Appendix A to this report, fulfils the requirements outlined in paragraph 7.1 of the Financial Regulations of the Council's Constitution.

8.3 The Council's Constitution in Part 3, Responsibility for Functions, paragraph 3.6 states the functions of the Cabinet Resources Committee including 'To consider reports on treasury management strategy and activity, including creating and maintaining a Treasury Management Policy Statement'.

9. BACKGROUND INFORMATION

9.1 Treasury Management in Local Government is guided by the 2001 revision of the CIPFA Code of Practice on Treasury Management in the Public Services. The Council has adopted the Code and complies with its requirements.

9.2 The primary requirement of the Code is the formulation and agreement of a Treasury Policy Statement and practices which set out Council, committee and officer responsibilities, and delegation and reporting arrangements. The statement and accompanying practices were approved by Council on 7 January 2003.

9.3 A requirement of the Council's Treasury Policy Statement is the reporting to Cabinet Resources Committee of both the expected treasury activity for the forthcoming financial year (the Annual Treasury Management Strategy Statement) and subsequently the results of the Council's treasury management activities in that year (as part of the Annual Outturn Report). Throughout the year, the Council's prudential indicators have historically been reported regularly to Cabinet Resources Committee in the Monitoring Report and this will continue in 2010/11 to ensure Members are informed of treasury management activity.

9.4 The Council's Treasury Management Strategy 2010/11 was approved at Cabinet Resources Committee on 16 March 2010. The TMS 2010/11 was a continuation of the 2009/10 strategy pending the tender and appointment of Treasury Advisors.

9.5 The key changes were:

(i) The introduction of liquidity and security benchmarks, as required by CIPFA Treasury Management Code of Practice.
(ii) The removal of references to Money Market Funds; and
(iii) The reference to the use of a minimum sovereign rating was amended so that it only applied to non-UK institutions, to reflect the risk of the UK sovereign being downgraded.

9.6 The Council's treasury advisors, Arlingclose, have now had an opportunity to undertake a review of the Council's balance sheet and to identify the council's short, medium and long term cash flow requirements. These requirements and there assessment of the short and medium term opportunities have now been incorporated into a revised Medium Term Financial Strategy for 2010/11 which is attached as an appendix to this report.

9.7 There are two key changes to the investment strategy namely investment duration and the list of counterparties. The investment strategy has been amended to extend the maximum permissible duration of investments from the current limit of 92 days to 364 days. This brings the strategy in line with that of other local authorities and will enable a higher rate of return on investments.

The counter party list has been amended to include counterparties recommended by Arlingclose, the council's treasury advisors. Arlingclose use a variety of methods to assess a counterparties creditworthiness including: credit ratings, credit default swaps, gross domestic product (GDP), debt as a percentage of GDP, sovereign support mechanisms and share price. This is an expansion on the current counterparty list which is limited to the DMO, Local Authorities, HSBC, Barclays, Lloyds Banking Group and the Royal Bank of Scotland.

9.8 It is proposed that the Council adopts the counterparty list of Arlingclose (the Council's treasury advisors) which includes the Debt Management Account Deposit Facility, T-Bills, UK local authorities, UK and non-UK banks and AAA-rated Money Market Funds.

Each institution on the list has a minimum long-term rating of A+ (the highest in the single-A category) from each of the main credit rating agencies, Fitch, Moody's and Standard & Poor's. The creditworthiness criteria on which the list is based also includes a range of indicators and does not rely on credit ratings alone. The UK institutions (7 banks and the Nationwide BS) on the list are those deemed to be systemically important to the UK financial system. The non-UK institutions are the major banks in specific countries with mature banking systems – Australia, Canada, Finland, France, Germany, Netherlands, Switzerland, Sweden, Switzerland and the US - and which have shown relative resilience through the financial crisis. The sovereign states and the banks within them have been selected after careful analysis and monitoring of the national GDP/net debt as a percentage of GDP, share price, credit default swap (where available) and, importantly, the willingness and the capacity of the sovereign state or a strongly-resourced parent to support the institution in case of need.

AAA-rated Money Market Funds are collective investment schemes which invest in a highly diversified range of short-term assets. The principal objectives of MMFs are the preservation of capital and the provision of very high liquidity (same day subscription and withdrawal). The assets in the fund are held in a safe-custody account and belong to the investors (termed shareholders) in the fund and not to the fund management company.

Also included on the list is the Council's banker, the Co-operative Bank; however as the bank's long-term ratings are below the minimum threshold of A+, investments with the bank will only be made on an operational basis with a maximum maturity of 5 days.

The counterparty list will offer greater diversification and spread of counterparty risk than at present. Further details are outlined in the appendix to this report.

9.9 Further borrowing will be needed to fund the Capital Programme as funding internally depletes cash reserves. The decision to undertake further borrowing has been triggered by the need to bring borrowing back in line with our underlying need to borrow, also known as our Capital Financing Requirement (CFR), and to cash-back our Balances and Reserves, which are sums of money that should be available for the Council to call upon in time of need. It is the Council's policy to match the Capital Financing Requirement with borrowing medium term. The Chief Finance Office will make decisions regarding the timings and terms of borrowing in accordance with the TMS. Fortuitously the timing of this decision is set against a backdrop of historically low interest rates. The CFR will be subject to continuous review to accurately reflect amendments to the capital program.

9.10 Debt Restructuring – It is proposed to restructure some PWLB maturity loans into variable rate and Equal Instalment of Principal (EIP) loans. The decision to restructure has been taken to allow the Council to benefit from the current historically low level of interest rates and in doing so lower the cost of borrowing, generating a revenue gain. PWLB variable interest rates are in the order of just 0.70% compared to our portfolio average interest rate of 4.09%. Additional restructuring may include the use of PWLB EIP borrowing which affords a degree of medium term certainty – 10 year rates being in the order of 2.10%. This decision may however carry a small short term financing cost as the Council will be unable to lend out these sums at the same rate that has been borrowed. Although this will incur a short term cost the long term benefit to the Council far outweighs this cost. Decisions to undertake restructuring opportunities will be make by the Chief Finance Officer in accordance with the TMS.

10. LIST OF BACKGROUND PAPERS

10.1 Treasury Management in the Public Services – CIPFA's Code of Practice and Cross-Sectoral notes.

10.2 Any person wishing to inspect this background paper should contact Karen Bannister on 020 8359 7119 or Karen.bannister@barnet.gov.uk.

Legal – PD
CFO – AT

APPENDIX

Treasury Management Strategy Statement and Investment Strategy 2010/11 to 2012/13

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<u>Appendices</u>

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 as required under the Communities and Local Government (CLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year.

In response to the financial crisis in 2008 and the collapse of the Icelandic banks, CIPFA revised the TM Code and Guidance Notes as well as the Prudential Code in late November 2009. CLG released revised Investment Guidance in April 2010. These changes have been incorporated into the London Borough of Barnet's treasury procedures and practices.

1.2 CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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

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

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

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

- Treasury Management Strategy for 2010-11 (Borrowing – Section 4, Debt Rescheduling – Section 5, Investments – Section 6)
- Prudential Indicators – Appendix B (NB - PI No. 6 - The Authorised Limit is a statutory limit)
- MRP Statement – Section 8
- Use of Specified and Non-Specified Investments – Appendices D & E

2. Balance Sheet and Treasury Position

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

	31 Mar 10 Actual £m	**31 Mar 11 Estimate £m**	**31 Mar 12 Estimate £m**	**31 Mar 13 Estimate £m**
CFR	246,117	288,755	294,646	293,168
Balances & Reserves	-92,210	-69,984	-69,097	-69,247
Net Balance Sheet Position	**153,907**	**218,771**	**225,549**	**223,921**

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

2.4 International Financial Reporting Standards (IFRS) require the estimates for the Capital Financing Requirement and Long Term Liabilities to take into account the Council's Private Finance Initiative (PFI) schemes and Operating leases. Barnet does not have any operating leases at present. This also effects the determination of the Council's Affordable Borrowing Limit and Operational Boundary.

2.5 The Department for Communities and Local Government has recently consulted on proposals to reform the council housing subsidy system. The proposed Self-financing option would require a one-off reallocation of housing debt. As the consultation period has only recently ended and the mechanism for debt transfer has not been determined, the estimates set out in this strategy do not take into account any potential debt transfer that may arise in future years. Should the debt be transferred to the local authority it will be necessary restate the Capital Financing Requirement and the Prudential Indicators for the Operational Boundaries and Authorised Limits.

2.6 The estimate for interest payments in 2010/11 is £8.650m and for interest receipts is £0.67m.

3. Outlook for Interest Rates

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix C. Financial markets remain reasonably volatile as the structural changes necessary within economies and the banking system evolve. This volatility provides opportunities for active treasury management. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

4. Borrowing Requirement and Strategy

4.1 The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Appendix B. 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. The Council's strategy is to match borrowing levels with the CFR in the medium term.

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:

	31/03/2010 Actual £m	**31/03/2011 Estimate £m**	**31/03/2012 Estimate £m**	**31/03/2013 Estimate £m**
Capital Financing Requirement	246,117	288,755	294,646	293,168
Less: Existing Profile of Borrowing and Other Long Term Liabilities	-230,359	-224,325	-221,630	-218,992
Cumulative Maximum External Borrowing Requirement	15,758	64,430	73,016	74,176
Balances & Reserves	-92,210	-69,984	-69,097	-69,247
Cumulative Net Borrowing Requirement/Investments	-76,452	-5,554	3,919	4,929

4.5 The Council's strategy is to maintain maximum control over its 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 minimise borrowing costs over the medium to longer term. 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
- Structured finance

The outlook for borrowing rates:

4.7 Short-dated gilt yields are forecast to remain lower than medium- and long-dated gilt yields during the rest of the financial year. Short-dated gilts will benefit from expectations of interest rates remaining lower for longer to enable growth to recover.

4.8 The differential between investment earnings and debt costs, despite long term borrowing rates being around historically low levels, remains acute and this is expected to remain a feature during 2010/11. The so-called "cost of carry" associated with long term borrowing compared to temporary investment returns means that the appetite for new long term borrowing brings with it additional short-term costs. It is not surprising that the use of internal resources in lieu of borrowing has been the most cost effective means of financing capital expenditure but, at some stage, internal resources will become depleted.

4.9 PWLB variable rates remain below 2%. They are expected to stay low as the Bank Rate is maintained at historically low levels to enable the struggling economy to recover sufficiently. Against a backdrop of interest rates remaining lower for longer and a continuation of the cost of carry backdrop, then a passive borrowing strategy, i.e. borrow long term funds as they are required, may remain appropriate. Equally, variable rate funds (that reduce the cost of carry) or EIP (equal instalments of principal) that mitigate the impact are both still active considerations.

4.10 Decisions to borrow at low, variable rates of interest, will be taken after considering the absolute level of longer term interest rate equivalents and the extent of variable rate earnings on the Council's investment balances. When longer term rates move below the cost of variable rate borrowing any strategic exposure to variable interest rates will be reviewed and, if appropriate, reduced.

4.11 Notwithstanding the issuance of Circular 147 on 20 October following the CSR announcement which increases 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.

4.12 The Council has £67.5m loans which are LOBO loans (Lender's Options Borrower's Option) of which £7.5m of loans are currently in, or will be in, their call period in FY 2010-11. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also the repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB or other sources.

5. <u>Debt Rescheduling</u>

5.1 The Council will continue to maintain a flexible policy for debt rescheduling. Market volatility and the steep yield curve may provide opportunities for rescheduling debt from time to time. The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

5.2 As of 26 April 2010, PWLB introduced intraday pricing. Prices are set twice daily, and are likely to move to a third daily rate setting by the end of the calendar year. This move has reduced the margins between premature repayment and new borrowing rates, particularly for longer maturities.

5.3 Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy. The Council will agree in advance with Arlingclose the strategy and framework within which debt will be repaid/rescheduled if opportunities arise. Thereafter the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers.

5.4 All rescheduling activity will comply with the accounting requirements of the local authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).

5.5 Borrowing and debt rescheduling activity, within the parameters of the TMS, will be decided by the Chief Financial Officer and subsequently reported to the next Cabinet Resources Committee meeting.

6. Investment Policy and Strategy

Background

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

Investment Policy

6.2 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 recent revised 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.

6.3 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.

6.4 The Council will continue to maintain a counterparty list based on these criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraph 6.12.

6.5 The CLG's Draft revisions to its Guidance on local government investments recommend that the strategy should state the authority's policies on investing money borrowed in advance of spending needs. This statement should identify any measures to minimise such investments, including any limits on:

- amounts borrowed and
- periods between borrowing and expenditure.

The statement should also comment on the management of risks, including the risk of loss of the borrowed capital and the risk associated with interest rate changes.

Limits on the amount borrowed in advance of need are identified in the Cumulative Maximum External Borrowing Requirement for future financial years set out in the table at paragraph 4.4. The risk associated with interest rate changes are based on the Interest Rate forecast at Appendix C and the current cost of carry referred to in section 4 above.

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

Investment Strategy

6.7 The global financial market storm in 2008 and 2009 has forced investors of public money to reappraise the question of risk versus yield. Income from investments is a key support in the Council's budget. The UK Bank Rate has been maintained at 0.5% since March 2009. **Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income**. The Council's strategy is geared towards this development whilst adhering to the principal objective of security of invested monies.

6.8 The Deputy Chief Executive, 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 Cabinet Resources Committee meeting.

Investments managed in-house:

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

6.10 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office.

6.11 The Council will restrict its investment activity to:

- The Debt Management Agency Deposit Facility (The rates of interest from the DMADF are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure).
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV). A CNAV money market fund has an unchanging face value and income can be either paid to the investor or used to purchase units in the fund.
- Deposits with other local authorities.
- Business reserve accounts and term deposits with institutions who meet the Council's minimum credit rating criteria.

6.12 Conditions in the financial sector have begun to show signs of improvement, albeit with substantial intervention by government authorities. In order to diversify the counterparty list, the use of comparable non-UK Banks for investments is now considered appropriate.

The sovereign states whose banks are to be included are Australia, Canada, Finland, France, Germany, Netherlands, Switzerland and the US. These countries, and the Banks within them (see Appendix E/F), have been selected after analysis and careful monitoring of:

- Credit Ratings (minimum long-term AA+ for sovereign states and A+ for banks)
- Credit Default Swaps
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution
- Share Price

The Council has also taken into account information on corporate developments and market sentiment towards the counterparties. 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. Thus the approved counterparty will be kept under constant review and scrutiny to reflect market conditions.

We do remain in a heightened state of sensitivity to risk. Vigilance is key. This modest expansion of the counterparty list is an incremental step. In order to meet requirements of the revised CIPFA Treasury Management Code, the Council is focusing on a range of indicators (as stated above), not just credit ratings.

Limits for Specified Investments are set out in Appendix D.

7. Balanced Budget Requirement

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

8. 2010/11 MRP Statement

The Annual MRP Statement is subject to Council approval and may therefore be reported separately to Council instead of being incorporated into the TMSS.

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

8.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

NB This does not preclude other prudent methods.

The 2009 SORP and IFRS may result in PFI schemes and leases being brought on balance sheet. Where this is the case the CFR will increase, which will lead to an increase in the MRP charge to revenue. MRP for these items will match the annual principal repayment for the associated deferred liability.

8.3 MRP in 2010/11: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

8.4 The MRP Statement was submitted to Council before the start of the 2010/11 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

8.5 The Council will apply Option 2 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure. MRP in respect of PFI and leases brought on Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

9. Reporting on the Treasury Outturn

The Deputy Chief Executive will report to the Cabinet Resources Committee on treasury management activity / performance as follows:
(a) Quarterly against the strategy approved for the year.
(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
(c) The Budget Performance Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

10. Other items

Training

CIPFA's revised Code requires the responsible officer 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.

The CLG's revised Guidance on local government investments recommend that the Investment Strategy should state what process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

Member Training provided in the 2010/2011 financial year to date:

- Sector: Treasury Management Strategy Training held on 30 June 2010
- Ark Risk: Counter Party Risk Training held on 21 July 2010

Investment Consultants
Following a tender process, Council appointed Arlingclose as their investment consultations with effect from 1 August 2010. Arlingclose offer advice, information and assistance with investments, borrowing, debt restructure, market conditions and compliance with legislation. The services provided by Arlingclose will be reviewed on an informal basis during quarterly meetings with officers.

Publication
The CLG's revised 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 Treasury Management Strategy, and all subsequent amendments, is taken to the Cabinet Resources Committee for approval. Minutes of the Cabinet Resources Committee meetings are available to the public on Barnet's website.

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	**%**	**31 Mar 11 Estimate £m**	**31 Mar 12 Estimate £m**	**31 Mar 13 Estimate £m**
External Borrowing: Fixed Rate – PWLB Fixed Rate – Market Variable Rate – PWLB Variable Rate – Market	 140,000 67,500 - -		 139,000 67,500 - -	 139,000 67,500 - -	 139,000 67,500 - -
Existing long-term liabilities	207,500		206,500	206,500	206,500
IFRS long-term liabilities: - PFI (2009/10) - Operating Leases (2010/11 onwards)	 5,034 -		 2,695 -	 2,638 -	 2,638
Total External Debt	212,534		203,805	203,862	203,862
Investments: *Managed in-house* - Deposits and monies on call and Money Market Funds	 187,500		 137,485	 136,313	 141,962
Total Investments	187,500		137,485	136,313	141,962
Net Borrowing Position/ (Net Investment position)	25,034		66,320	67,490	61,900

PRUDENTIAL INDICATORS 2010/11 TO 2012/13

1 Background:

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

2. 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 Deputy Chief Executive reports that the authority had no difficulty meeting this requirement in 2009/10, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

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

No. 1	**Capital Expenditure**	**2009/10 Actual £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
	Non-HRA	89,206	**89,141**	21,602	1,725
	HRA*	26,339	**24,373**	16,569	8,090
	Total	**115,545**	**113,514**	**38,171**	**9,815**

3.2 Capital expenditure will be financed as follows:

Capital Financing	**2009/10 Actual £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
Capital receipts	5,545	3,965	2,863	
Government Grants	45,581	44,430	12,319	
Major Repairs Allowance				
Revenue contributions	16,335	14,119	10,394	6,590
Supported borrowing				
Unsupported borrowing	48,084	**51,000**	12,595	3,225
Total	**115,545**	**113,514**	**38,171**	**9,815**

The main programmes / projects funded from unsupported borrowing are expected to be:

Non HRA

- Primary school rebuild and temporary / permanent expansions £177m
- Secondary school rebuild project £5m
- Special educational need for the education sector £2m
- Maintaining and improving the infrastructure of the primary and secondary school estate £4m

- Investment in the office accommodation strategy, modernising processes and public buildings £7m
- Staffing restructuring / reorganisation £4m
- Ensuring transport assets such as roads and footways are well managed and maintained £5m

HRA
- Maintaining the housing stock £7m

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code.

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

No. 2	**Ratio of Financing Costs to Net Revenue Stream**	**2009/10 Actual %**	**2010/11 Estimate %**	**2011/12 Estimate %**	**2012/13 Estimate %**
	Non-HRA	2.76	3.73	3.48	2.78
	HRA*	8.37	9.72	9.11	7.39

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure.

No. 3	**Capital Financing Requirement**	**2009/10 Actual £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
	Non-HRA	158,632	194,141	198,257	195,279
	HRA*	87,485	94,614	96,389	97,889
	Total CFR	**246,117**	**288,755**	**294,646**	**293,168**

5.2 The year–on-year change in the CFR is due to the following:

Capital Financing Requirement	2009/10 Actual £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
Balance B/F	198,662	**246,117**	288,755	294,646
Capital expenditure financed from borrowing (per 3.2)	54,361	**51,000**	12,595	3,225
Revenue provision for debt Redemption.	**-6,906**	**-8,362**	**-6,704**	**-4,703**
Other items: *(specify)*				
Deferred Liability Add : PFI brought on B/S Less : PFI Principal Repayment				
Deferred Liability +Operating Lease brought on B/S -Operating Lease Principal Repayment				
Balance C/F	**246,117**	**288,755**	**294,646**	**293,168**

6. Actual External Debt:

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

No. 4	Actual External Debt as at 31/03/2010	£m
	Borrowing	214.50
	Other Long-term Liabilities	15.86
	Total	**230.36**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No. 5	Incremental Impact of Capital Investment Decisions	2009/10 Approved £	2010/11 Estimate £	2011/12 Estimate £	2012/13 Estimate £
	Increase in Band D Council Tax	25.92	14.37	2.06	0.45
	Increase in Average Weekly Housing Rents	0	0	0	0

7.2 The increase in Band D council tax/average weekly rents reflects the increases in running costs and/or increases in the provision for Capital Financing Charges of £3.94m to undertake borrowing of £66,820m arising from the proposed capital programme.

8. Authorised Limit and Operational Boundary for External Debt:

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

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No. 6	**Authorised Limit for External Debt**	**2009/10 Approved £m**	**2010/11 Estimate £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
	Borrowing	251,322	303,289	324,695	328,107	321,008
	Other Long-term Liabilities	50,000	30,859	33,156	32,902	32,671
	Total	**301,322**	**334,148**	**357,851**	**361,009**	**353,679**

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

8.6 The Deputy Chief Executive has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet Resources Committee.

No. 7	**Operational Boundary for External Debt**	**2009/10 Approved £m**	**2010/11 Estimate £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
	Borrowing	251,322	303,289	324,695	328,107	321,008
	Other Long-term Liabilities	31,000	15,859	18,156	17,902	17,671
	Total	**282,322**	**319,148**	**342,851**	**346,009**	**338,679**

9. Adoption of the CIPFA Treasury Management Code:

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

No. 8 Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Cabinet Resources Committee meeting on 17 March 2010.

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

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

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

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

		2009/10 Revised %	**2010/11 Estimate %**	**2010/11 Estimate %**	**2011/12 Estimate %**	**2012/13 Estimate %**
No. 9	**Upper Limit for Fixed Interest Rate Exposure**	100%	100%	100%	100%	100%
No. 10	**Upper Limit for Variable Interest Rate Exposure**	40%	40%	40%	40%	40%

Note: These limits may be expressed as financial amounts or as percentages.

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

10.4 *(if applicable)* As the Council's investments are substantially in excess of its borrowing, these calculations have resulted in a negative figure.

11. Maturity Structure of Fixed Rate borrowing:

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

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

No 11	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
	Under 12 months	0	50
	12 months and within 24 months	0	50
	24 months and within 5 years	0	75
	5 years and within 10 years	0	75
	10 years and within 20 years	0	100
	20 years and within 30 years	0	100
	30 years and within 40 years	0	100
	40 years and within 50 years	0	100
	50 years and above	0	100

12. Upper Limit for total principal sums invested over 364 days:

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No. 12	**Upper Limit for total principal sums invested over 364 days**	**2009/10 Approved £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
		0	**30%**	**30%**	**30%**

Arlingclose's Economic and Interest Rate Forecast

- **The recovery in growth is likely to be slow, uneven and more "Square root" than "V" shaped.**
- **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.**
- **Gilts will remain volatile as the growth versus headline inflation debate escalates.**
- **The potential for downgrades to UK sovereign ratings has receded, but the negative outlook (S&P) will remain for now.**

Underlying assumptions:

- The Bank's August Inflation Report as expected showed a downward revision to growth prospects. The Bank had to do this without blaming the Emergency Budget or admitting past errors, which they managed to do by looking fairly bullish in comparison to other commentators, including the Office for Budget Responsibility which forecasted 2011 growth at 2.3%. The 1st estimate of UK Q2 growth (GDP) figure is 1.1%.
- Looming bank regulation, including liquidity and capital requirements, may curb bank lending activity. But FSA regulations should force banks to buy more Gilts which could help slow the rise in yields in 2010/11, a QE by proxy.
- With CPI stubbornly resistant over 3% and 10 year gilt yields at the same level there is little room for further outperformance in the absence of a reduction in the inflation and growth outlook. This is possible but it suggests to us that gilts look expensive at current levels.
- The employment outlook remains uncertain, as unemployment remains near a 16 year high at just over 2.4 Million.
- A high savings ratio combined with a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rate of growth despite Q2's strong performance.
- Initial cuts in public spending and tax increases to address the budget deficit have been announced in the emergency budget. Longer term plans will be set out in the October CSR.
- With a stabilisation in the Eurozone after the sovereign debt crisis the Euro has rallied slightly against the pound. But there are continued pressures in the region which will affect the competitiveness of UK exports.
- The US Federal Reserve downgraded its outlook for US growth and kept the size of the financial stimulus constant. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

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 quality" 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).
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV).
- 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, SI 2007 No 573 and SI 2010 No 454.

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 short-term/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 minimum: 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**	**Counterparty**	**Maximum Limit of Investments %/£m**
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Cooperative Bank Plc*	No limit
Term Deposits/Call Accounts	UK	Santander UK Plc	15% of total exposure
Term Deposits/Call Accounts	UK	Bank of Scotland/ Lloyds TSB	15% of total exposure
Term Deposits/Call Accounts	UK	Barclays Bank Plc	15% of total exposure
Term Deposits/Call Accounts	UK	Clydesdale Bank	15% of total exposure

Term Deposits/Call Accounts	UK	HSBC Bank Plc	15% of total exposure
Term Deposits/Call Accounts	UK	Nationwide Building Society	15% of total exposure
Term Deposits/Call Accounts	UK	Royal Bank of Scotland	15% of total exposure
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	15% of total exposure
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	15% of total exposure
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd	15% of total exposure
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	15% of total exposure
Term Deposits/Call Accounts	Canada	Bank of Montreal	15% of total exposure
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	15% of total exposure
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	15% of total exposure
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	15% of total exposure
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	15% of total exposure
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	15% of total exposure
Term Deposits/Call Accounts	France	BNP Paribas	15% of total exposure
Term Deposits/Call Accounts	France	Credit Agricole CIB (Formally Calyon)	15% of total exposure
Term Deposits/Call Accounts	France	Credit Agricole SA	15% of total exposure
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	15% of total exposure
Term Deposits/Call Accounts	Netherlands	Rabobank	15% of total exposure
Term Deposits/Call Accounts	Switzerland	Credit Suisse	15% of total exposure
Term Deposits/Call Accounts	US	JP Morgan	15% of total exposure
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
Bonds	EU	European Investment Bank/ Council of Europe	No limit
AAA rated Money Market Funds	UK/Ireland/ Luxembourg	CNAV MMFs	20% of total exposure
Other MMFs and CIS	UK	Collective Investment Schemes	

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

For Non-UK Banks, a maximum exposure of 25-30% per country will apply, to reduce the risk of over-exposure to any one country.

Money Market Funds investments will be diversified amongst at least two or more funds.

Group Limits - For institutions within a banking group, a 20% total exposure limit will be imposed.

***Coop Bank Plc** – As the Coop Bank is the Council’s banker, although it does not meet the minimum credit criteria of A+ long term, it will still be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.