

**London Borough of Barnet  
Treasury Management Strategy Statement  
and Investment Strategy revised 2012/13  
2013/14 to 2015/16**

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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 on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.
- 1.2. As per the requirements of the Prudential Code the Authority adopted the CIPFA Treasury Management Code on 3 January 2003 and incorporates the changes from the revised CIPFA Code of Practice (2011) into its treasury policies, procedures and practices.
- 1.3. 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."*
- 1.4. 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 therefore central to the Council's treasury management strategy
- 1.5. The strategy 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 (Annex A), the Prudential Indicators (Annex B) and the outlook for interest rates (Annex C).
- 1.6. The purpose of this Treasury Management Strategy Statement is to approve:
  - Revisions to Treasury Management Strategy and Prudential Indicators for 2012-13;
  - Treasury Management Strategy for 2013-14;
  - Annual Investment Strategy for 2013-14;
  - Prudential Indicators for 2013-14, 2014-15 and 2015-16 (Annex B)
  - MRP Statement. (See Para 9 )
- 1.7. All treasury activity will comply with relevant statute, guidance and accounting standards.
- 1.8. The main recommended revisions to the Treasury Management Strategy are to
  - Amend minimum credit ratings of financial institutions (minimum A- or equivalent) and its sovereign ( minimum AA+ or equivalent for non-UK sovereigns)
  - Extension of maximum investment duration from 1 to 2 years subject to a limit of £40 million for investments of more than one year duration (20% of average cash investments).
  - Extend range of counterparties to include investment with registered providers (registered social landlords), subject to investment advice for each new investment decision.
- 1.9. The other adjustments are amendments to reporting requirements to prudential indicators to reflect changes to the Prudential Code.

## 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 Usable Reserves, are the core drivers of treasury management activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

**Table 1 Balance Sheet Summary Analysis:**

	<b>31/03/2013 Estimate £000</b>	<b>31/03/2014 Estimate £000</b>	<b>31/03/2015 Estimate £000</b>	<b>31/03/2016 Estimate £000</b>
General Fund CFR	172,774	193,671	211,399	217,446
HRA CFR *	199,559	199,559	199,559	199,559
<b>Total CFR</b>	<b>372,333</b>	<b>393,230</b>	<b>410,958</b>	<b>417,005</b>
<b>Less:</b> Existing Profile of Borrowing and Other Long Term Liabilities	(321,982)	(321,751)	(321,489)	(346,820)
<b>Cumulative Maximum Additional External Borrowing Requirement</b>	<b>50,351</b>	<b>71,479</b>	<b>89,469</b>	<b>70,185</b>
Usable Reserves	(154,714)	(100,000)	(100,000)	(100,000)
<b>Cumulative Net Borrowing Requirement/(Investments)</b>	<b>(104,363)</b>	<b>(28,521)</b>	<b>(10,531)</b>	<b>(29,815)</b>

\* This figure reflects the HRA debt increase on account of Housing Reform of £102.580m.

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 **Annex 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. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements. A list of Prudential Indicators is set out in **Annex B**.

### Financing costs

2.3. The estimate for interest payments in 2013/14 is £11.708 million (including £6.85m for HRA borrowing) and for interest receipts, £1.09m.

2.4. The Council is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required. Given current interest rates, this situation is very unlikely to occur in 2013/14.

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

2.6. The Council's balance of actual gross borrowing plus other long-term liabilities is shown in Annex A. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

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

<b>Authorised Limit for External Debt</b>	<b>2012/13 Revised £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>
Borrowing	431,414	476,218	457,106	448,615
Other Long-term Liabilities	32,671	32,409	32,114	31,780
<b>Total</b>	<b>464,085</b>	<b>508,627</b>	<b>489,220</b>	<b>480,395</b>

2.8. 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.

<b>Operational Boundary for External Debt</b>	<b>2012/13 Revised £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>
Borrowing	431,414	476,218	457,106	448,615
Other Long-term Liabilities	17,671	17,409	17,114	16,780
<b>Total</b>	<b>449,085</b>	<b>493,627</b>	<b>474,220</b>	<b>465,395</b>

### **Housing Revenue Account Self-Financing**

2.9. The reforms involve a removal of the housing subsidy system by offering a one of reallocation of debt the settlement of the reallocation took place on 28<sup>th</sup> March 2012 and resulted in the Council having an increase in debt to fund the settlement of £102.580 million. Revisions to the prudential indicators have been made from 2011-2012 onwards to reflect the increase in borrowing to reflect the self-financing settlement.

## **3. Outlook For Interest Rates**

3.1. The Council's Treasury adviser Arlingclose have provided an interest rate forecast which continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the moribund outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. The UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.

3.2. The economic interest rate outlook provided by the Council's current treasury advisor, Arlingclose Ltd, is attached at Annex C. 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 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 Annex 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. This position means that it is favourable, where possible, for the Council to use internal balances, rather than take on new debt, in the short term.

4.2 As indicated in Table 1, the Authority has a gross and net borrowing requirement and will be required to borrow up to £71 million in 2013/14 on a gross basis (to be financed mainly through internal borrowing). The Authority will adopt a flexible approach to future borrowing and debt rescheduling in consultation with its treasury management advisers. The following issues will be considered prior to undertaking any external borrowing:

:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

### **Sources of Borrowing and Portfolio implications**

4.3 In conjunction with advice from its treasury advisor, the Authority will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

4.4 The cost of carry may result in an increased reliance upon shorter dated and variable rate borrowing for the Council. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority’s potential for exposure to shorter dated and variable rate borrowing will be kept under regular review, if applicable, by reference to the difference or spread between variable rate and longer term borrowing costs.

4.5 The Council has £62.5m loans which are LOBO loans (Lender's Options Borrower's Option) of which £45m of loans are currently in or will be in their call period in 2013/14. 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 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. The default response will however be early repayment without penalty.

### **Debt Rescheduling**

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

4.7 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise.

4.8 The rationale for rescheduling would be one or more of the following:

- Align long-term cash flow projections and debt levels
- Reduce investment balances and credit exposure via debt repayment
- 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.

4.9 Any borrowing and rescheduling activity will be done under delegated authority and reported to the Cabinet Resources Committee.

## **5 Annual Investment Strategy**

5.1 The Council sets an Annual Investment Strategy (AIS) in accordance with best practice and to comply with CLG Guidance on Local Government Investments.

5.2 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

5.3 The authority and its advisers remain on a heightened state of alert for credit or market distress that might adversely affect the Authority

5.4 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG. 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.

5.5 The types of investments that may be used by the Authority and whether they are specified or non-specified are set out in the table below:

**Table 2: Specified and Non-Specified Investments**

<b>Investment</b>	<b>Specified</b>	<b>Non-Specified</b>
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	x
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	x

5.6 A number of changes have been implemented to investment strategy from 2012/13 in response to and evolving conditions in financial markets.

5.7 Registered Providers (RPs) have been included within specified and non-specified investments for 2013/14. Investments with RPs will be analysed on an individual basis and discussed with the Council's treasury adviser prior to an investment decision.

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

- Published credit ratings for financial institutions (minimum A- or equivalent ) and its sovereign rating (minimum AA+ or equivalent for non-UK sovereigns)
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example country's net debt as a percentage of its GDP)
- Sovereign support mechanisms
- Share Prices (where available)
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay

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

5.10 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix E, the Director of Finance will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

Any institution will be suspended or removed should any of the factors identified above give rise to concern. Credit ratings are monitored by the Authority on an ongoing basis and whenever a new investment is under consideration. The Authority is informed by the treasury adviser of ratings changes and appropriate action to be taken.

5.10 The countries and institutions that would currently meet the proposed criteria for investments are included in **Annex D**.

5.11 It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

5.12 The Council revised its investment strategy in the wake of the banking crisis. This led to restrictions on investment duration and use of a limited range of counterparties. The duration limit for deposits was set at a maximum 364 days and further restricted by an operational overlay. The financial situation is more settled now and enough to consider extending investment duration beyond 364 days subject to an overall investment limit of £40 million up to 2 years.

5.13 The Council banks with the Cooperative Bank. At the current time, it does not meet the minimum specified investment credit criteria. Despite the credit rating being below the Authority's minimum criteria, the Co-operative Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

## **6 Investment Strategy**

6.1 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.

6.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

6.3 Money market funds (MMFs) will be used as they provide good diversification. The Council will also seek to manage operational risk by using at least two MMF's. The Authority will also restrict its exposure to MMF's 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 MMF's, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.



## **7 Policy on Use of Financial Derivatives**

- 7.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
- 7.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 7.4 The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

## **8 Housing Revenue Account Self-Financing**

- 8.1 Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.
- 8.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their TMSS.
- 8.3 From 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.
- 8.4 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred annually between the General Fund and HRA at an internally determined rate of interest.

## **9 2012/13 MRP Statement**

9.1 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.

9.2 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*

9.3 The four MRP options MRP in 2012/13: Options 1 and 2 may be used only for supported non –HRA capital expenditure funded from borrowing. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported non HRA capital expenditure if the Council chooses). There is no requirement to Charge MRP in respect of HRA capital expenditure funded for borrowing (Barnet policy).

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

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

9.6 MRP in respect of leases brought on Balance Sheet under the IFRS-based Code of Practice will match the annual principal repayment for the associated deferred liability.

## **10 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

10.1 Treasury activity is monitored and reported internally to Deputy Chief Executive. The Prudential Indicators will be monitored through the year and reported as under:

The Deputy Chief Executive will report to the Cabinet Resources Committee on treasury management activity / performance and Performance Indicators 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 30<sup>th</sup> 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.

## **11 Other Items**

### **Training**

11.1 CIPFA's Code of Practice requires the Deputy Chief Executive 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.

### **Investment Consultants**

- 11.2 The CLG's Guidance on local government investments recommend that the Investment Strategy should state:
- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
  - How the quality of any such service is controlled.
- 11.3 Following a tender process, the Council appointed Arlingclose as their Treasury Investment Consultants from effect 1 August 2010. Arlingclose provide advice, information and assistance with investments, borrowing, debt restructure, market conditions and compliance with legislation. The services provided by Arlingclose are reviewed on an informal basis during quarterly meetings with officers and periodic tendering.

## EXISTING PORTFOLIO PROJECTED FORWARD

	<b>Current Portfolio £000</b>	<b>31 Mar 13 Estimate £000</b>	<b>31 Mar 14 Estimate £000</b>	<b>31 Mar 15 Estimate £000</b>	<b>31 Mar 16 Estimate £000</b>
<b>External Borrowing:</b>					
Fixed Rate – PWLB	241,580	241,580	241,580	267,206	282,170
Fixed Rate – Market					
Variable Rate – PWLB	62,500	62,500	62,500	62,500	62,500
Variable Rate – Market					
<b>Total External Borrowing</b>	<b>304,080</b>	<b>304,080</b>	<b>304,080</b>	<b>329,706</b>	<b>344,670</b>
<b>IFRS Long Term Liabilities:</b>					
- PFI	17,671	17,671	17,409	17,114	16,780
<b>Total Gross External Debt</b>	<b>321,751</b>	<b>321,751</b>	<b>321,489</b>	<b>346,820</b>	<b>361,450</b>
<b>Investments:</b>					
<i>Managed in-house</i>					
- Short-term monies (Deposits/ monies on call /MMFs)	(220,000)	(180,000)	(152,000)	(142,000)	(132,000)
- Long-term investments (maturities over 12 months)					
<b>Total Investments</b>	<b>(220,000)</b>	<b>(180,000)</b>	<b>(152,000)</b>	<b>(142,000)</b>	<b>(132,000)</b>
<b>Net Borrowing Position/ (Net Investment position)</b>	<b>101,751</b>	<b>141,751</b>	<b>169,489</b>	<b>204,820</b>	<b>229,450</b>

## PRUDENTIAL INDICATORS

**Prudential Indicators**

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

**Gross Debt and the Capital Financing Requirement;**

2 This is key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two years. The DCE reports that the authority had no difficulty meeting this requirement in 2011/12, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

**Estimates of Capital Expenditure:**

3 It is a requirement of the Prudential Code that that the Council ensures that 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.

<b>Capital Expenditure</b>	<b>2012/13 Revised £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>
Non-HRA	47,850	112,895	49,492	26,075
HRA	16,687	28,279	28,829	28,488
<b>Total</b>	<b>64,537</b>	<b>141,174</b>	<b>78,321</b>	<b>54,563</b>

4 Capital expenditure is expected to be financed as follows

<b>Capital Financing</b>	<b>2012/13 Revised £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>
Capital receipts	14,251	33,873	1,853	
Government Grants	20,286	42,365	14,322	7,296
Major Repairs Allowance	15,948	27,332	27,892	27,594
Revenue contributions	5,740	9,755	8,629	4,709
<b>Total Financing</b>	<b>56,225</b>	<b>113,325</b>	<b>52,696</b>	<b>39,599</b>
Supported borrowing				
Unsupported borrowing	8,312	27,729	25,625	14,964
<b>Total Funding</b>	<b>8,312</b>	<b>27,729</b>	<b>25,625</b>	<b>14,964</b>
<b>Total Financing and Funding</b>	<b>64,537</b>	<b>141,054</b>	<b>78,321</b>	<b>54,563</b>

### Incremental Impact of Capital Investment Decisions

5 As an indicator of affordability the table below 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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2012/13 Revised £</b>	<b>2013/14 Estimate £</b>	<b>2014/15 Estimate £</b>	<b>2015/16 Estimate £</b>
Increase in Band D Council Tax	13.77	36.94	14.24	8.24
Increase in Average Weekly Housing Rents	11.75	0.98	(0.60)	(9.70)

### Financing costs

6. The ratio of financing costs to the Council's net revenue stream 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 ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2012/13 Revised %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>	<b>2015/16 Estimate %</b>
Non-HRA	2.69	2.89	3.46	3.92
HRA	14.98	14.13	14.21	14.33

### Upper Limits for Fixed Interest Rate Exposure and Variable Rate Exposure

7. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. 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. The Council's existing level of fixed interest rate exposure is 100% and variable rate exposure is 0%.

	<b>2012/13 Revised %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>	<b>2015/16 Estimate %</b>
<b>Upper Limit for Fixed Interest Rate Exposure</b>	100%	100%	100%	100%
<b>Upper Limit for Variable Interest Rate Exposure</b>	30%	30%	30%	30%

## Maturity Structure of Fixed Rate Borrowing

8. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. 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	Existing level (or Benchmark level) at 31/03/12 %	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
under 12 months	0.0	0	50
12 months and within 24 months	0.0	0	50
24 months and within 5 years	0.0	0	75
5 years and within 10 years	0	0	75
10 years and within 20 years	30.6	0	100
20 years and within 30 years	35.5	0	100
30 years and within 40 years	6.8	0	100
40 years and within 50 years	9.0	0	100
50 years and above	18.1	0	100

### Actual External Debt:

9. 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 31/03/2012	£000
Borrowing	304,080
Other Long-term Liabilities	17,902
<b>Total</b>	<b>321,982</b>

### Upper Limit for principal sums invested over 364 days:

10 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. 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	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
	0	40,000	0	0

## HRA Limit on Indebtedness

11 This was a new indicator required by the revised Prudential Code, issued in November 2011:

HRA Limit On Indebtedness	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
HRA CFR	199,559	199,559	199,559	199,559
HRA Debt Cap (as prescribed by CLG) *	240,043	240,043	240,043	240,043
Difference	(40,484)	(40,484)	(40,484)	(40,484)

ANNEX C

### Annex C – Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
<b>Official Bank Rate</b>													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>3-month LIBID</b>													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
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
<b>1-yr LIBID</b>													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.85	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
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
<b>5-yr gilt</b>													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.95	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
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
<b>10-yr gilt</b>													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	2.00	2.00	2.05	2.05	2.05	2.05	2.10	2.10	2.10	2.20	2.20	2.20	2.20
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
<b>20-yr gilt</b>													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.10	3.10	3.10	3.10	3.10
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
<b>50-yr gilt</b>													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.35	3.35	3.35	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
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

### Underlying Assumptions:

- UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in Q4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.
- Consumer Price Inflation has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.



- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.
- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.
- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.
- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning the haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

## Annex D –Recommended Sovereign and Counterparty List (Section 5 and 6)

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

### Long-term minimum: A-(Fitch); A (Moody's); A (S&P)

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

### Investment subject to £40 million total limit if duration more than 364 days

**Group Limits** - For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Limits £m	Counterparty
Term Deposits	UK	DMADF, DMO	No limit	
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit	
Term Deposits/Call Accounts	UK*	Counterparties rated at least A- Long Term)		
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A- Long Term in select countries with a Sovereign Rating of at least AA+		
CDs and other negotiable instruments		with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)		
Deposits	UK	Registered Providers (Former RSLs)	£5m/RP	
Gilts	UK	DMO	No limit	
T-Bills	UK	DMO	No limit	
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)		
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	10% of total LBB investment cash outstanding for each MMF.	
Other MMF's and CIS	UK/Ireland/ Luxembourg domiciled	Collective Investment Schemes (pooled funds) which meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and	10% of total LBB investment cash outstanding for each MMF.	

		subsequent amendments	
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**For Non-UK Banks** - a maximum exposure of £40 million per country will apply to limit the risk of over-exposure to any one country.

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limit £m</b>	<b>Maximum Group Limit (if applicable) £m</b>
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£25,000,000	
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£25,000,000	
Term Deposits/Call Accounts	UK	Nationwide Building Society	£25,000,000	
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts	UK	Standard Chartered	£25,000,000	
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£25,000,000	
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£25,000,000	
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£25,000,000	£37,500,000
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£25,000,000	
Term Deposits/Call Accounts	Canada	Bank of Montreal	£25,000,000	
Term Deposits/Call	Canada	Bank of Nova Scotia	£25,000,000	

Accounts				
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£25,000,000	
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£25,000,000	
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£25,000,000	

*Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.*

**Non-specified investments may be made with the following instruments :  
(The Authority will have a maximum of £100million of its investment portfolio in non-specified investments.)**

<b>Instrument</b>	<b>Maximum maturity</b>	<b>Max £M of portfolio and Credit limit</b>	<b>Capital expenditure?</b>	<b>Example</b>
Term deposits with banks, building societies which meet the specified investment criteria	2 years	£10m per counterparty	No	
Term deposits with local authorities	2 years	£10m per authority	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria	2 years	£10m per counterparty	No	
Gilts	5 years	£20 million Credit limit not applicable gilts issued by UK Government	No	
Bonds issued by multilateral development banks	5 years	£20 million Minimum credit rating AA+	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	5 years	£20 million Minimum credit rating AA+	No	
<b>Other Non-Specified investments for consideration</b> (such investment will be subject to credit assessment by the Council's treasury advisor on a case by case basis)				
Money Market Funds and	N/A – these funds do	£20 million	No	Investec Target Return Fund; Elite Charteris Premium Income

Collective Investment Schemes	not have a defined maturity date			Fund; LAMIT; M&G Global Dividend Growth Fund
Deposits with registered providers	5 years	£5m per registered provider/£20 million overall	No	
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	5 years	20%	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	N/A – these funds do not have a defined maturity date	£10 million	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund
Bank or building societies not meeting specified criteria	3 months	£10m per counterparty	No	Bank or building societies not meeting specified criteria e.g. Co-operative Bank /Clydesdale/unrated Building Societies
		£		
	Subject to a maximum of £20m overall			

