Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2014/15

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Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

1. Background

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

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

1.3. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral element to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.4. 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 and the outlook for interest rates (Annex B).

1.5. The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2011-12 (Borrowing and Debt Rescheduling - Section 4, Investments - Section 5)
- Prudential Indicators – (NB: the Authorised Limit is a statutory limit)
- Minimum Revenue Provision Statement (MRP) Statement – Section 8
- Use of Specified and Non-Specified Investments – Annex C & D

1.6. The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting In February 2010 The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.[1]

1.7. All treasury activity will comply with relevant statute, guidance and accounting standards.

[1] This Prudential Indicator demonstrates the Council has adopted the principles of best practice in terms of Treasury Management

2. Balance Sheet and Treasury Position

2.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR)[2], together with cash balances, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
General Fund CFR	**341.4**	**377.9**	**388.2**	**391.6**	**391.5**
HRA CFR	**91.5**	**92.5**	**156.5**	**157.5**	**158.5**
Total CFR	**432.9**	**470.4**	**544.7**	**549.1**	**550.0**
Less: Existing Profile of Borrowing and Other Long Term Liabilities	**(265.0)**	**(302.0)**	**(375.0)**	**(380.0)**	**(383.0)**
Cumulative Maximum External Borrowing Requirement	**167.9**	**168.4**	**169.7**	**169.1**	**167.0**
Cash Balances	**(50.0)**	**(50.0)**	**(50.0)**	**(50.0)**	**(50.0)**
Cumulative Net Borrowing Requirement	**117.9**	**118.4**	**119.7**	**119.1**	**117.0**

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[3] (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

2.3. It is a requirement of the Prudential Code to ensure 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.

Capital Expenditure	**2010/11 Approved £m**	**2010/11 Revised £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Non-HRA	105,679	80,967	92,949	**42,345**	22,913	15,511
HRA	57,967	58,007	15,193	**15,165**	15,135	1,000
Total	**163,646**	**138,974**	**108,142**	**57,510**	**38,048**	**16,511**

[2] The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

[3] This is a key indicator of prudence and should not exceed the Capital Financing Requirement. 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.

2.4. Capital expenditure is expected to be financed as follows [4]:

Capital Financing	**2010/11 Approved £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
General Resources	13,649	**19,446**	8,337	4,854	3,933
Government Grants/External Funding	61,125	**33,126**	28,590	18,454	1,000
Major Repairs Allowance	9,800	10,300	0	0	0
Total Financing	84,574	**54,052**	36,927	23,308	4,933
Supported borrowing	44,053	**0**	0	0	0
Unsupported borrowing	35,019	**45,270**	20,583	14,740	11,578
Total Funding	79,072	**45,270**	20,583	14,470	11,578
Total Financing and Funding	**163,646**	**108,142**	**57,510**	**38,048**	**16,511**

Incremental Impact of Capital Investment Decisions:

2.5. 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.

Incremental Impact of Capital Investment Decisions	**2011/12 Estimate £**	**2012/13 Estimate £**	**2013/14 Estimate £**	**2014/15 Estimate £**
Increase in Band D Council Tax	**(8.68)**	7.05	4.98	9.43

2.6. **Reform to the Council Housing Subsidy System**: CLG issued its policy document on self-fiancing in February 2011. If given Royal Assent under the Localism Bill in July/November 2011, Enfield will be required to take on £48.5m of additional borrowing. This can be funded through the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market. The type of loans taken will be decided on in discussions with the Housing department and the Council's Treasury Advisors.

2.7. The estimate for interest payments in 2011/12 is £12.9m. The ratio of financing costs to the Council's net revenue stream[5] is the key 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.

Ratio of Financing Costs to Net Revenue	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**	**2014/15 Estimate**

[4] The element to be financed from borrowing impacts on the movement in the Capital Financing Requirement. An increase in the CFR in turn produces an increased requirement to charge MRP in the Revenue Account.
[5] The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

Stream	%	%	%	%
Non-HRA	**9.29**	9.74	10.23	10.47
HRA	**28.04**	27.39	27.19	27.10

3. **Borrowing and Rescheduling Strategy**

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

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

Authorised Limit for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	500	500	560	600	600	600
Other Long-term Liabilities	30	80	80	80	80	80
Total	**530**	**580**	**640**	**680**	**680**	**680**

3.3. The **Operational Boundary** links directly to the Council's estimates of the CFR and 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.

Operational Boundary for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	435	400	417	491	496	499
Other Long-term Liabilities	20	60	65	65	65	65
Total	**455**	**460**	**482**	**556**	**561**	**564**

3.4. The Director of Finance & Corporate Resources in consultation with the Cabinet member for Finance 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 Cabinet.

3.5. In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options[6]:

- 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

[6] These sources of borrowing should also then be included in the Treasury Management Practices.

- Local authority bills
- Structured finance

3.6. Notwithstanding the issuance of Circular 147 on 20th October 2010 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. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable

Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintaining stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" (associated with medium- and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs). The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure. This position, however, cannot continue indefinitely, as cash balances will eventually be exhausted. Therefore, borrowing will be needed at some point to fund the capital programme, unless an equivalent amount is found from capital receipts.

3.7. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. If variable rate borrowing is undertaken, exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Authority's Treasury Advisor and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.

3.9 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.

As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers.

3.11 The Director of Finance & Corporate Resources in consultation with the Cabinet member for Finance has delegated authority on borrowing and rescheduling activity. Any activity will be reported to Cabinet meeting and reported in the treasury management outturn report .to Council.

3.12 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%.

Interest Rate Exposures	**2010/11 Approved %**	**2011/12 Estimate %**	**2012/13 Estimate %**	**2013/14 Estimate**	**2014/15 Estimate %**
Fixed					
Upper Limit for Fixed Interest Rate Exposure on Debt	100	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)
Net Fixed Exposure	**0**	**0**	**0**	**0**	**0**
Variable					
Upper Limit for Variable Interest Rate Exposure on Debt	25	25	25	25	25
Upper Limit for Variable Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)
Net Variable Exposure	**(75)**	**(75)**	**(75)**	**(75)**	**(75)**

3.13. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced.[7] Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

[7] This Prudential Indicator 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. The TM Code of Practice (Guidance Notes page 12) recommends that the Maturity Structure of fixed rate borrowing is to be broken down into several ranges if significant debt is held in periods in excess of 10 years

[8] The TM Code Guidance Notes encourage authorities to define their benchmark interest rate exposure and maturity profile position and then set limits to logically relate to that benchmark.

Maturity structure of fixed rate borrowing	Existing level [8] at 31/03/10 %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	2.27	-	15
12 months and within 24 months	-	-	15
24 months and within 5 years	-	-	20
5 years and within 10 years	13.61	-	50
10 years and within 20 years	0.45	0	100
20 years and within 30 years	9.11	0	100
30 years and within 40 years	21.67	25	100
40 years and within 50 years	52.88	25	100
50 years and above	-	25	100

4. **Investment Policy and Strategy**

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

4.2. 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.

4.3. 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 Annex C and D. The Director of Finance & Corporate resources, 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 meeting.

4.4. Changes to investment strategy for 2011/12 include:
- Treasury Bills (T-Bills)
- Term deposits in Sweden

The management of risks, including the risk of loss of the borrowed capital are identical to all forms of investment as set out in this strategy. The risk associated with interest rate changes are based on the Interest Rate forecast at **ANNEX C** and the current "cost of carry".

4.5. The Council's current level of investments is presented at **Annex A.**

4.6. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

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

but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

4.8. The Council selects countries and the institutions within them (see ANNEX C), for the counterparty list after analysis and careful monitoring of:

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

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

4.10. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

4.11. 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.

4.12.

No. 12	Upper Limit for total principal sums invested over 364 days [9]	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
		0	0	0	0	0

5. Outlook for Interest Rates

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

6. Balanced Budget Requirement

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

7. 2011/12 MRP Statement[10]

7.1. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a

[9] Please make allowance within this Indicator for amounts invested for **1 year**, i.e 365/366 days.

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

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prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2. The MRP Statement will be submitted to Council before the start of the 2011/12 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.

For capital expenditure incurred before 1 April 2008, the MRP policy is to follow existing practice – this requires a charge to be made to the revenue account equivalent to 4% of the outstanding debt at the start of the financial year;
For capital expenditure incurred from 1 April 2008 to 31 March 2011, and which is supported capital expenditure (SCE), the Council follows existing practice, as this matches the way in which Government support is calculated in the Formula Grant. It should be noted that Government will no longer provide SCE from 1 April 2011.

For all unsupported borrowing incurred from 1 April 2008 onwards, it is recommended that MRP is calculated on the basis of amortising the amount borrowed over the estimated lives of the assets acquired or enhancements made as a result of the related expenditure.

8. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

Treasury activity is monitored daily and reported to Cabinet monthly. The Prudential Indicators will be monitored through the year by the Cabinet.

The Director of Finance will report to the Cabinet on treasury management activity / performance and Performance Indicators as follows:
(a) Quarterly [11] 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 Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

9. Other Items

Training

CIPFA's Code of Practice requires the Director of Finance 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 Director of Finance meets regularly with the lead Finance cabinet member to discuss treasury issues and developments.

Investment Consultants

[11] CIPFA requires **as a minimum** a mid-year and year end review of treasury activity.

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.

The Council uses Arlingclose as its Treasury Advisor. Arlingclose provide investment advice, technical support, counterparty creditworthiness, debt management advice, economic updates and interest rate forecasts. We manage the relationship with our treasury advisors by meeting them on a regular basis, usually quarterly. At these meetings current market conditions and our strategy are reviewed. We ensure that the information provided is current and appropriate to our circumstances.

Our current contract with Arlingclose, awarded via a competitive tendering and interview process, runs until March 2013. To ensure that we would get a service appropriate to the needs of the Council, requirements were laid down in tendering documents. These requirements are reviewed regularly to ensure the service received is as per expectations

Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

ANNEX A

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m 31 December 2010	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
External Borrowing					
Fixed Rate – PWLB	190.4	185.4	185.4	185.4	184.5
Fixed Rate –Market	30.0	30.0	30.0	30.0	30.0
New Borrowing	-	-	34.0	106.0	111.0
Total External Borrowing	220.4	215.4	249.4	321.4	325.5
IFRS Long Term Liabilities: - PFI	51.0	49.6	52.6	53.6	54.5
Total Gross External Debt	271.4	265.0	302.0	375.0	380.0
Investments: *Managed in-house* - Short-term monies (Deposits/ monies on call /MMFs) -	(65.0)	(50.0)	(50.0)	(50.0)	(50.0)
Total Investments	65.0	50.0	50.0	50.0	50.0
(Net Borrowing Position)/ Net Investment position	206.4	216.4	252.0	325	330.0

Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

ANNEX B

Arlingclose's Economic and Interest Rate Forecast

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**2.00**	**2.50**	**2.75**	**2.75**	**3.00**	**3.00**	**3.00**
Downside risk	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.65**	**1.90**	**2.15**	**2.40**	**2.50**	**2.50**	**2.75**	**3.00**	**3.25**	**3.50**	**3.50**	**3.50**	**3.50**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**2.75**	**3.00**	**3.25**	**3.50**	**3.75**	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**	**4.25**	**4.25**	**4.00**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.90**	**4.00**	**4.10**	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**	**5.00**	**5.00**	**4.75**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**4.50**	**4.75**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.25**	**5.25**	**5.00**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.50**	**4.50**	**4.50**	**4.50**	**4.75**	**4.75**	**4.50**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow and uneven.
- The initial reaction to the CSR was positive but implementation risks remain. Gilts will be vulnerable as investors respond to a difference between the theory and practice of the deficit reduction plans.
- The MPC faces the dilemma of persistently high inflation but a sluggish economy and a challenging employment backdrop. The February Inflation Reports will be a crucial indicator to the timing and speed of interest rate rises.

Underlying assumptions:

- The framework announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt will be put to the test; meeting the 2010 borrowing target of £149bn will be crucial to the gilt market's confidence in the credibility of the deficit reduction plans.
- Consumer Price Inflation has risen to 3.7% driven largely by energy and transport prices and could peak at over 4% in the first quarter of 2011 with the impact of the VAT increase. CPI will remain high for the rest of the year. February's Inflation Report which will be a key indicator to the timing and aggressiveness of interest rate rises.
- Unemployment remains near a 16 year high at just over 2.5 million and is set to increase as the Public Sector shrinks. Although employment is growing this is due to part time work, leaving many with reduced incomes.
- High inflation, modest pay rises, public sector job cuts and the possibility of higher mortgage rates will dampen consumer spending. Mortgage repayments, a reduction in net

consumer credit and weak consumer confidence are consistent with a lower growth outlook which will stay the hand of the Monetary Policy Committee for some time.

- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK bank balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- The ECB has maintained rates at 1%. However, President Trichet's comments imply a tougher stance regarding inflation risks leading markets to believe the ECB could raise rates as 'price stability' becomes a primary concern.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

ANNEX C

Specified and Non Specified Investments

Specified Investments identified for use by the Council

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

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high credit 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)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)

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

Long-term minimum: A+(Fitch); A1 (Moody's;) A+ (S&P)
Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

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

New specified investments will be made within the following limits:

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£20m
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£20 million per counterparty
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	Maximum of £10 million per country
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)	£20 million
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs	£20 million per counterparty

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

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Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Group Limit £m
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£20 million	£20 million
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£20 million	£20 million
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£20 million	£20 million
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£20 million	£20 million
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	£20 million	£20 million
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£20 million	£20 million
Term Deposits/Call Accounts	UK	Nationwide Building Society	£20 million	£20 million
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	£20 million	£20 million
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£20 million	£20 million
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£20 million	£20 million
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£10 million	£10 million
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£10 million	£10 million
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£10 million	£10 million
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£10 million	£10 million
Term Deposits/Call Accounts	Canada	Bank of Montreal	£10 million	£10 million
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£10 million	£10 million
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£10 million	£10 million
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£10 million	£10 million
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£10 million	£10 million
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£10 million	£10 million
Term Deposits/Call Accounts	France	BNP Paribas	£10 million	£10 million
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£10 million	£10 million
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£10 million	£10 million
Term Deposits/Call Accounts	France	Société Générale	£10 million	£10 million
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£10 million	£10 million
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£10 million	£10 million

Term Deposits/Call Accounts	Netherlands	Rabobank	£10 million	£10 million
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£10 million	£10 million
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£10 million	£10 million
Term Deposits/Call Accounts	US	JP Morgan	£10 million	£10 million

ANNEX D

Non-Specified Investments determined for use by the Council

It is not the intention of the Council to use any non-specified investments