WARWICK DISTRICT COUNCIL	Finance & Audit Scrutiny Committee - 6 August 2013	Agenda Item No. 4

Title	**2012/13 Annual Treasury Management Report**
For further information about this report please contact	Karen Allison, Assistant Accountant 01926 456334 e mail: Karen.allison@warwickdc.gov.uk
Wards of the District directly affected	None
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	N/A
Background Papers	Treasury Management Annual Strategy Plan 2012/2013 Various documents from Sector Treasury Services

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive	25.07.2013	Chris Elliott
Head of Service	N/A	
CMT	N/A	
Section 151 Officer	19.07.2013	Mike Snow
Monitoring Officer	N/A	
Finance	19.07.2013	Roger Wyton
Portfolio Holder(s)	N/A	

Consultation Undertaken	
N/A	
Final Decision?	Yes
Suggested next steps (if not final decision please set out below) N/A	

1. **SUMMARY**

1.1. The Council is required to report upon its 2012/13 Treasury Management performance by 30th September. This report therefore details and reviews the Council's performance for the whole of 2012/13 and is attached as Appendix A.

1.2 Consideration of the Council's Treasury Management activities is within the remit of the Finance and Audit Scrutiny Committee hence, it is appropriate to report the Council's annual performance direct to this Committee.

1.3 The report follows the format used in the Treasury Management Strategy Plan presented to the Executive on 15th February 2012 and comments where appropriate, on the Council's actual performance against what was forecast in the Strategy Plan which is attached as Appendix B. The Council also has to comment upon its performance against its Annual Investment Strategy for the year and this document is shown in Appendix C.

2. **RECOMMENDATION**

2.1 That the Members of the Finance and Audit Scrutiny Committee note the contents of this report.

3. **REASONS FOR THE RECOMMENDATION**

3.1 The 2012/13 Treasury Management Strategy and the Council's Treasury Management Practices, in accordance with the Code of Practice for Treasury Management, require that the Treasury Management function reports upon its activities during the year by no later than 30th September in the year after that which is being reported upon.

4. **POLICY FRAMEWORK**

4.1 Treasury Management will support the Council in achieving its aims as set out in "Fit for the Future".

5. **BUDGETARY FRAMEWORK**

5.1 Treasury Management has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimise borrowing interest payable. The Council is reliant upon interest received to help fund the services it provides. As detailed in paragraph 11.9, the net interest received by the General Fund for 2012/13 was £336,000 against a revised estimate of £306,000 and original of £321,000.

6. **ALTERNATIVE OPTION CONSIDERED**

6.1 None.

APPENDIX A

2012/13 ANNUAL TREASURY MANAGEMENT REPORT

7. REVIEW OF THE INTEREST RATE ENVIRONMENT.

7.1 The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies which resulted in the UK losing its AAA credit rating. Key to regaining the AAA rating from Fitch will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March. The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

7.2 With regard to deposit rates, the Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

7.3 Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically very low levels.

8. CAPITAL EXPENDITURE AND FINANCING

8.1 The Council's capital programme for 2012/13 amounted to £9,283,691 and was financed in the following manner:-

	2012/13 Actual		Strategy Report
	£		**£**
Prudential Borrowing	0		0
Capital Receipts	476,249		2,924,400
Revenue and Reserves	7,952,452		7,298,000
External Contributions and Grants	854,990		1,497,900
Total	**9,283,691**		**11,720,300**

9. BORROWING

9.1 The Council managed its cash flow during the year such as to not require any temporary borrowing.

9.2 The Council incurred £4,765,564 interest on its external borrowing portfolio of £136.157 million in 2012/13 which was charged entirely to the HRA as it related to the Self Financing borrowing incurred in 2011/12.

10. TREASURY LIMITS AND PRUDENTIAL INDICATORS

10.1 The Prudential Capital Finance system was introduced on 1st April 2004. The system is regulated by a number of Prudential Indicators, a number of which are relevant for treasury management purposes and are included in the Annual Strategy Report. The table below shows the outturn against those quoted in the Strategy Report:-

	2012/13 Out-turn		2012/13 Strategy Report
	£		**£**
Authorised Limit for External Debt			
Borrowing	162,100,000		165,940,000
Other Long term Liabilities	1,116,000		620,000
Total	**163,216,000**		**166,560,000**
Operational Boundary for External Debt			
Borrowing	151,100,000		154,940,000
Other Long term Liabilities	115,000		120,000
Total	**151,215,000**		155,060,000
Capital Financing Requirement			
General Fund	-£1,326,896		-£1,326,896
Housing Revenue Account	£135,786,796		136,893,160
Overall	**£134,459,900**		**£135,566,264**
Incremental Impact on Council Tax / Housing Rents			
Council Tax	£1.31		£1.51
Housing Rent	£0.00		£0.00

10.2 These are the following indicators relating to borrowing:-

Upper limit to fixed interest rate and variable interest rate exposures

Strategy Report - Upper Limit Fixed Rate = 100%
Actual – Upper Limit Fixed Rate = 100%

Strategy Report - Upper Limit Variable Rate = 30%
Actual – Upper Limit Variable Rate = 30%

Upper and lower limits respectively for the maturity structure of borrowing

Period	**Upper**	**Lower**
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

In both cases the indicators were complied with as the only borrowing outstanding at the year end was the £136.157m PWLB debt in respect of the HRA Self Financing Payment. This debt is all fixed rate maturing from years 41 to 50 of the Business Plan and therefore this is within both indicators shown above.

10.3 The final indicator monitors the amount invested for periods longer than 364 days which in 2012/13 was set at 40% of the investment portfolio subject to a maximum of £9 million at any one time. During 2012/13 the Council didn't enter into any investments for periods in excess of 364 days therefore the indicator was complied with.

11. ANNUAL INVESTMENT STRATEGY AND INVESTMENT PERFORMANCE

11.1 The ODPM guidance on local government investments require the production of an Annual Investment Strategy which amongst other things outline the investment vehicles which could be used by the Council and separate them off into Specified and Non Specified investments. The 2012/13 Annual Investment Strategy was approved by the Council in February 2012 and is included in Appendix B below.

11.2 During the year the in house investments were invested in the Money Markets and Money Market Funds.

11.3 The in house function has invested both cash flow driven and core cash funds in fixed term Money Market deposits. The table overleaf illustrates the performance, by half year and for the year, of the in house function for each category normally invested in:-

(It should be noted that this table reflects investments placed in the year and does not take into account loans that were placed during 2011/12 which matured during 2012/13).

Money Market Investments:

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) performance
Up to 7 days			
April to Sept 2012	No investments made in this half year.		
Oct to Mar 2013	No investments made in this half year		
Annual Performance	**No investments made in year**		
Over 7 days & Up to 3 Months			
April to Sept 2012	0.93%	0.67%	+0.26%
Value of Interest earned first half year	£108,946	£78,984	+£29,962
Oct to Mar 2013	0.62%	0.45%	+0.17%
Value of Interest earned second half year	£18,213	£13,014	+£5,199
Annual Performance	**0.87%**	**0.63%**	**+0.24%**
Annual Interest	**£127,159**	**£91,998**	**+£35,161**
Over 3 Months & Up to 6 Months			
April to Sept 2012	No investments made in this half year.		
Oct to Mar 2013	0.41%	0.53%	-0.12%
Value of Interest earned second half year	£2,033	£2,636	-£603
Annual Performance	**0.41%**	**0.53%**	**-0.12%**
Annual Interest	**£2,033**	**£2,636**	**-£603**

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) performance
Over 6 Months to 364 days			
April to Sept 2012	2.76%	1.33%	+1.43%
Value of Interest earned first half year	£80,778	£66,374	+£14,404
Oct to Mar 2013	0.65%	0.78%	-0.13%
Value of Interest earned second half year	£125,545	£150,312	-£24,767
Annual Performance	**1.09%**	**0.89%**	**+0.20%**
Annual Interest	**£206,323**	**£216,686**	**-£10,363**
365 days and over			
April to Sept 2012	No investments made in this half year.		
Oct to Mar 2013	No investments made in this half year.		
Annual Performance	**No investments made in the year.**		
Annual Interest	**No investments made in the year.**		
Total Annual Interest – All categories.	**£335,515**	**£311,320**	**+£24,195**

11.4 Due to Money Market Funds outperforming the Up to 7 Day area of the Money Markets, this category was not used in 2012/13 for cash flow driven investments. During the first half year the Council continued to make investments in the Up to 3 Months area of the Money Markets with category C Building Societies who were offering attractive rates thus leading to the outperformance of the LIBID benchmark. However, the introduction of the Governments Funding For Lending Scheme depressed the rates being offered by these Building Societies in the latter half of the year and in addition, results from the Sector Treasury Benchmarking Club indicated that the yield being obtained on these category C Building Society investments was not consistent with the perceived increased risk of investing with such unrated institutions. A decision was therefore taken to move out of the Building Society sector and invest with stronger rated counterparties. Consequently in order to improve the security of the portfolio and to lock into a reasonable rate of return, the Council invested in Local Authorities such as Birmingham City and Glasgow in the 364 Day category. This resulted in a slight underperformance of the relevant LIBID benchmark but given the increased security in the portfolio this was considered acceptable.

11.5 The in house function utilised the AAA rated Invesco AIM, Deutsche, Prime Rate, Ignis and Goldman Sachs Money Market Funds to assist in managing its short term liquidity needs. The table overleaf illustrates the performance, by half year and full year of the five funds:

Money Market Funds:

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche			
April to Sept 2012	0.54%	0.49%	+0.05%
Value of Interest earned first half year	£4,619	£4,183	+£436
Oct to Mar 2013	0.37%	0.36%	+0.01%
Value of Interest earned second half year	£5,118	£4,662	+£456
Annual Performance	**0.45%**	**0.39%**	**+0.06%**
Annual Interest	**£9,737**	**£8,845**	**+£892**
Goldman Sachs			
April to Sept 2012	0.54%	0.49%	+0.05%
Value of Interest earned first half year	£4,199	£3,791	+£408
Oct to Mar 2013	0.40%	0.36%	+0.04%
Value of Interest earned second half year	£8,669	£7,774	+£895
Annual Performance	**0.44%**	**0.39%**	**+0.05%**
Annual Interest	**£12,868**	**£11,565**	**+£1,303**
Invesco Aim			
April to Sept 2012	N/A	N/A	N/A
Value of Interest earned first half year	No investments made in fund during 1st half year		
Oct to Mar 2013	0.35%	0.36%	-0.01%
Value of Interest earned second half year	£2,991	£3,170	-£179
Annual Performance	**0.35%**	**0.36%**	**-0.01%**
Annual Interest	**£2,991**	**£3,170**	**-£179**

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Prime Rate			
April to Sept 2012	0.77%	0.49%	+0.28%
Value of Interest earned first half year	£23,088	£14,665	+£8,423
Oct to Mar 2013	0.55%	0.36%	+0.19%
Value of Interest earned second half year	£16,529	£10,711	+£5,818
Annual Performance	**0.66%**	**0.39%**	**+0.27%**
Annual Interest	**£39,617**	**£25,376**	**+£14,241**
Ignis			
April to Sept 2012	0.72%	0.49%	+0.23%
Value of Interest earned first half year	£19,274	£13,071	+£6,203
Oct to Mar 2013	0.50%	0.36%	+0.14%
Value of Interest earned second half year	£14,430	£10,156	+£4,274
Annual Performance	**0.56%**	**0.39%**	**+0.17%**
Annual Interest	**£33,704**	**£23,227**	**+£10,477**
TOTAL INTEREST FIRST HALF YEAR	**£51,180**	**£35,710**	**+£15,470**
TOTAL INTEREST SECOND HALF YEAR	**£47,737**	**£36,473**	**+£11,264**
TOTAL INTEREST FOR YEAR	**£98,917**	**£72,183**	**+£26,734**

11.6 The Up to 7 Days LIBID rate is the benchmark in this instance and it can be seen that all the funds except Invesco made returns in excess of the benchmark thus justifying the decision to use them in preference to short term Money Market investments. The Prime Rate and Ignis Money Market Funds performed particularly well compared to the others and this is as a result of them having a slightly longer weighted average maturity (WAM) than the other funds. This perceived greater risk thus yielding a higher return. However, it must be stressed that all Money Market Funds have to adhere to a very strict credit rating criteria and therefore funds with slightly more risk in them are still very safe.

11.7 The Council has access to two Bank Rate tracking Business Reserve Accounts with Santander (previously Abbey National) and Lloyds Banking Group (previously Bank of Scotland). Due to Santander been taken off our lending list and also due to the low Bank Rate during the year and as better returns could be obtained from the Money Market Funds these reserve accounts were not used during 2012/13.

11.8 In paragraph 5.1 of the Annual Investment Strategy, the Council anticipated that it would have an average investment balance of £33m during 2012/2013. The actual was £47.3m, the increase being partly accounted for by slippage in the capital programme leading to higher than expected balances in reserves, unused capital receipts particularly from the sale of Wilton House, increased Council House sales resulting from the change in Right To Buy discounts which are now more generous than before and from increased cash flows during the year. In addition the impact of the Housing Self-Financing regime has resulted in increased investment balances both of a cash flow nature and also as a result of the enhanced Capital Programme envisaged by the business plan not yet commencing. As an illustration of this the balance on the Housing Capital Investment Reserve has increased by £4.5 million at the end of the year. The investment strategy of this cash would not have been any different had we known about the "additional" £14m. Paragraph 10.3 makes reference to a 60% minimum short term investments holding. The average investment balance in 2012/13 was £47.3m of which a maximum of £9m could have been invested for more than 364 days at any one time. However no investments were made for more than 364 days and therefore the 40% limit on investments which can be held in longer term investments did not apply in 2012/13. A comparison between 2011/12 actual, 2012/13 revised and 2012/13 actual in terms of in house investment interest returns and interest rates is shown in the table below:-

In House Investment Returns:

Year	Interest Received (£)	Interest Rate Achieved %
2011/12 actual	550,686	1.28
2012/13 revised	437,391	1.00
2012/13 actual	447,354	0.95

In the Annual Investment Strategy it was anticipated that the in house portfolio would achieve a 1.39% return for 2012/13. This was then revised downwards to 1.00% partly due to the effect of the continuation of the policy to not invest beyond three months on Sector's advice and longer term rates i.e. 364 days being lower than anticipated. The actual rate was 0.95% which is in line with the 2012/13 revised.

11.9 The table below compares the actual total interest received by the Council with what was expected when the original and revised estimates were calculated and also the 2011/12 actual:-

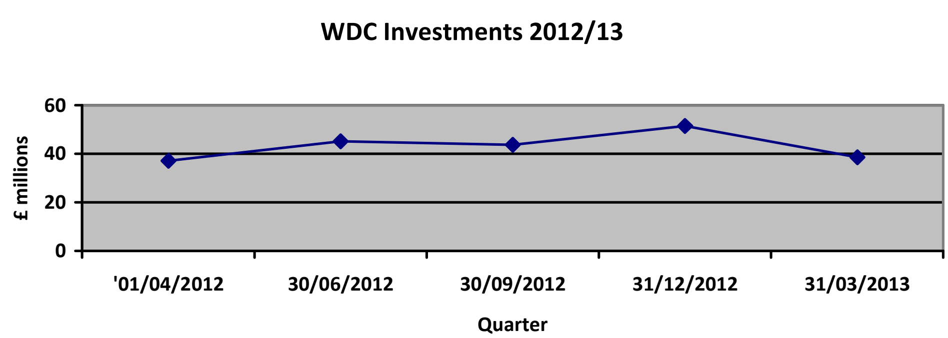
	Credited to General Fund	**Credited to Housing Revenue Account**	**Total Investment Interest Earned**
	£	**£**	**£**
2011/12 Actual	376,156	180,091	556,247
2012/13 Original	321,100	139,400	460,500
2012/13 Revised	306,291	131,100	437,391
2012/13 Actual	335,754	115,600	451,354

It should be borne in mind that the 2011/12 and 2012/13 actual figures in the tables in 11.8 and 11.9 are not directly comparable as the table in 11.8 relates only to investments made whilst the figures in 11.9 include interest received from other sources i.e. car loans, long term investments e.g. war stock.

11.10 An analysis of the overall investments of the Council as at 31st March 2013 is shown in the table below, with the previous year's figures shown for comparison purposes:

IN HOUSE	**31st March 2013**	**31st March 2012**
TYPE OF INVESTMENT	**£**	**£**
Money Markets	26,000,000	30,000,000
Money Market Funds	12,488,000	4,604,000
Total	**38,488,000**	**34,604,000**

11.11 The graph below shows how the total of the Council's investments varies through the year according to its cash flows, It illustrates that during the period April to December the Council's investments grows as cash flows in from such sources as Council Tax & NNDR and then from January onwards how the investments decline as cash flows out e.g. precepts exceed that coming in.



12. BROKERS PERFORMANCE

12.1 The performance of the brokers that WDC uses to place its Money Market investments has been measured against the rates available in the market on the day that the investments were placed in order to ensure that WDC is obtaining a reasonable rate given the size of deposit that WDC normally places. Since the advent of Money Market Funds, the number of investments placed through brokers has much reduced but the analysis shows that the brokers in general either achieved or exceeded the going rate for the day. However, during the last quarter of the financial year when we invested more in Local Authorities for added security to our portfolio, the rates achieved inevitably fell below the market rates.

13. PERFORMANCE MEASUREMENT

13.1 In addition to the in house local benchmarks referred to in the tables in paragraphs 11.3 and 11.5 the Council participates in the Sector Investment Benchmarking Club which benchmarks not only investment returns but also the maturity and credit risk inherent in the portfolio. The Council is part of a local group which consists of District and County Councils and our performance over the past year is reflected in the tables below:-

Table A Weighted Average Rate of Return (WARoR)

	WDC WARoR %	Local Group WARoR %	Sector Model WARoR %
June Quarter	1.20	0.86	1.38
September Quarter	1.01	0.99	1.31
December Quarter	0.83	0.79	0.95
March Quarter	0.92	0.95	1.00
Average for Year	**0.99**	**0.90**	**1.16**

(n.b. it should be noted that the average interest rate for the year is not directly comparable to that quoted in paragraph 11.8 as that contains the effect of investments made in 2011/12 and maturing in 2012/13 whereas the rate in table A relates to 2012/13 investments only.)

13.2 It can be seen that the Council's average return throughout the year under performed in comparison with Sector's model portfolio rate of return based on the risk in our portfolio. This was mainly due to the rates being achieved by the Building Society investments underperforming the model portfolio when the additional risk of using these unrated counterparties was factored in . The Council out performed against the local group's rate of return mainly due to the local group, particularly the County Councils, placing significant amount of investments in short term or overnight deposits with the Government which offered inferior interest rates when compared to vehicles offering comparable AAA rated security such as Money Market Funds.

Table B Weighted Average Credit Risk

	WDC	Local Group
June Quarter	4.5	2.8
September Quarter	4.4	2.9
December Quarter	2.9	2.6
March Quarter	1.8	2.3
Average for Year	**3.4**	**2.65**

13.3 This benchmark measures the average credit risk in the portfolio according to the institutions invested in and corresponds to the duration limits in Sector's suggested credit methodology using a sliding scale of 1 to 7 where 1 indicates the least risk of default. The above table shows that this Council's credit risk during the year has decreased to a level below that of the local group and this is accounted for by our use of Local Authority investments which have a lower credit risk. This has particularly been the case when investments with building societies have matured and then deposited with Local Authorities. As already mentioned in paragraph 13.2, the local group, particularly the County Councils, has tended to invest in low yielding, ultra high security investments such as the Government Debt Management Office (DMO) facility and their lower credit risk score for the first three quarters is directly related to their lower investment return as shown in Table A.

13.4 The Council's credit risk for the first half year was limited by ensuring that no investment with unrated Building Societies was for more than three months and also limited to £1m per counterparty. This was in accordance with the Council's 2012/13 Annual Investment Strategy and resulted in useful additional investment interest as these societies offered attractive interest rates. However, since January 2013 Sector advised investing in longer dated investments of up to 364 days with stronger rated counterparties which resulted in the Local Authority investments receiving lower yields but lower credit risk.

14. <u>THE EURO</u>

14.1 The Treasury Management Strategy Plan requires the Treasury Management function to keep up to date with matters relating to the UK's possible entry into the Euro. During 2012/13, events in the Eurozone oscillated between crises and remedies. In December confidence rose that the Eurozone crisis was finally subsiding but during February and March concerns returned with the focus now shifting to Cyprus. Such events make it extremely unlikely that the UK will consider joining the Eurozone for the foreseeable future.

15. <u>EXTERNAL TREASURY MANAGEMENT ADVISERS</u>

15.1 Sector Treasury Services Ltd. continues to provide our Treasury Management Advisory service. The service was retendered in January 2010 and following a full tender evaluation process the contract was renewed with Sector for a three year period and the option to extend this for a further two years was agreed in January 2013.

16. OTHER ISSUES

16.1 The Council has entered into a joint venture with Waterloo Housing Association in which Council land will be sold on a deferred basis to the Housing Association in order to provide resources for additional social housing. The first parcel of land, the former Kingsway Community Centre, was sold during 2012/13 to Waterloo and this has resulted in a deferred capital receipt of £224,252. Waterloo will begin to make instalment payments to the Council in 2015/16 and these will continue until 2023/24 at which point the deferred capital receipt will be released to the Useable Capital Receipts Reserve.

APPENDIX B

ANNUAL TREASURY MANAGEMENT STRATEGY PLAN 2012/13
(As presented to Executive on 15th February 2012)

ANNUAL TREASURY MANAGEMENT STRATEGY PLAN 2012/13

1. **GENERAL**

1.1 This part of the report outlines the strategy that the Council will follow during 2012/13. Its production and submission to the Executive is a requirement of the CIPFA. Code of Practice on Treasury Management in the Public Services.

1.2 The suggested strategy for 2012/13 in respect of the treasury management function is based upon the officer's view on interest rates supplemented with forecasts provided by Sector Treasury Services who are the Council's treasury advisers.

1.3 The Prudential Code for Capital Finance in local authorities which was revised in 2009 introduced new requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy. The Prudential Code requires the Council to set a number of Prudential Indicators and this report does therefore incorporate the indicators to which regard should be given when determining the Council's treasury management strategy for the next 3 financial years.

1.4 It is also a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from a) increases in interest charges caused by increased borrowing to finance additional capital expenditure b) any increases in running costs from new capital projects and c) the loss of interest on balances or reserves arising from their use in financing the capital expenditure are limited to a level which is affordable within the projected income of the council for the foreseeable future. This is covered by the Prudential Indicator calculating the Incremental Impact on the Council Tax or Housing Rent in paragraph 5.3 below.

1.5 The Council's treasury management operations are also governed by various Treasury Management Practices (TMP's), the production of which is a requirement of the CIPFA code and which must be explicitly followed by officers engaged in treasury management. These have previously been reported to the Executive and approved. There have been the following changes to various Treasury Management Practices (TMP's) and these changes are outlined below

TMP 1 Risk Management

Paragraph 2.1(a) – Change from Individual ratings to Viability ratings with a minimum level of BBB. This is required to reflect the updating of Fitch's credit rating methodology. The BBB rating is the nearest equivalent to the old B/C Individual rating that previously obtained.

Paragraph 2.1(b) – Reduction in Long term credit rating for partly or fully UK Government owned banks from A+ to A. This reflects the fact that the UK Government acts as the "lender of last resort" in these instances and allows WDC to continue to invest in these counterparties.

Paragraph 2.1(c) – Introduction of non credit rated but explicitly guaranteed banks e.g. Cater Allen, to our counterparty list. This will potentially increase our investment returns but with no additional credit risk as the parent bank will have a credit rating at least equal to our minimum requirements and the explicit guarantee will ensure that our investment will be returned in full to us should the subsidiary run into difficulties.

Paragraph 2.1 (f) – Addition of £500m asset value floor. This will ensure that WDC only invests in the medium to large Building Societies..

TMP4 Approved Instruments, Methods and Techniques.

Paragraph 3.1 – Expansion of Bonds in list of borrowing instruments to include Public, Private and Club Bonds. This is to reflect the current types of bonds in the market and to allow for their potential use in the future if required.

Paragraph 3.4 – Inclusion of the capacity for internal borrowing in the number of factors to be taken into consideration before taking out a new long term loan.

TMP6 Reporting Requirements and Management Information Arrangements.

Paragraph 1.3 –Amendment of reporting arrangements from quarterly to at least bi-annually. A Systems Intervention exercise on Treasury Management has highlighted that we report to Finance & Audit Scrutiny Committee more often (quarterly) than the minimum requirements of the CIPFA Treasury Management Code of Practice which calls for a mid-year report as a minimum. Finance & Audit will be requested for their views on how often it should receive in year performance reports.

2 **INTEREST RATE FORECASTS FOR 2012/13**

2.1 The ability to forecast the movement of interest rates is fundamental to successful investment and borrowing strategies. The Council employs Sector Treasury Services to provide interest rate forecasts and their latest view on both short and long term rates is shown in 2.2 below and has been used to formulate the investment interest estimates used in the budget report elsewhere on this agenda.

2.2 As already mentioned, the Council will be taking on PWLB debt in order to finance the HRA Self Financing debt settlement. The initial debt portfolio is likely to consist of loans of varying maturities hence the relevance of the 5, 10, 25 and 50 year PWLB rates in the table below, both in terms of the original loans and any opportunities for debt restructuring in years to come. It should be noted that the interest rates applying to the settlement loans will be discounted from the current rate at the 28th March, the date on which the loans will be taken out, by approximately 85 basis points (0.85%) i.e. the 25 year PWLB rate at March 2012 of 4.20% per the table below will be around 3.35% for debt settlement loans only .

(Q/E = quarter end)

Q/E	**Dec 2011**	**Mar 2012**	**June 2012**	**Sept 2012**	**Dec 2012**	**Mar 2013**	**June 2013**	**Sept 2013**	**Dec 2013**	**Mar 2014**
Bank Rate	0.50%	0.50%	0.50 %	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
5yr PWLB Rate	2.30%	2.30%	2.30 %	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%
10yr PWLB Rate	3.30%	3.30%	3.30 %	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%
25yr PWLB Rate	4.20%	4.20%	4.20 %	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%
50yr PWLB Rate	4.30%	4.30%	4.30 %	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%

2.3 The Monetary Policy Committee (MPC) utilises Bank Rate as one of its tools to control inflation in the economy and meet its target rate of 2% Consumer Prices Inflation (CPI) .

2.4 Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

2.5 Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

2.6 This challenging and uncertain economic outlook has a several key treasury mangement implications:

The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;

Investment returns are likely to remain relatively low during 2012/13;

Borrowing interest rates are currently attractive, but may remain low for some time. With the exception of the HRA Self Financing debt which has to be taken on the 28th March 2012, the timing of any borrowing will need to be monitored carefully;

There will remain a cost of capital – any borrowing undertaken that results in an increase in investments i.e. taken in advance of need will incur a revenue loss between borrowing costs and investment returns.

2.7 As a counterpoint to Sectors view on Bank Rate , Capital Economics (a leading Economics House) take a more pessimistic view of any recovery and is not forecasting Bank Rate to rise from its current 0.50% throughout 2012 and 2013. The HM Treasury Survey of Economic Forecasts has the view that Bank Rate will begin to rise from Quarter 4 (December) 2012 with an average of 1.20% for 2013.

2.8 With regard to Long Term borrowing rates, Capital Economics is forecasting PWLB rates to be generally lower than Sector's view and to remain at current levels throughout the period to December 2013.

2.9 A more detailed economic analysis by Sector is included at Appendix E.

3 CAPITAL BORROWING AND CAPITAL PROGRAMME FINANCING STRATEGY

3.1 The Council is able to finance its capital programmes in the following ways:-

a) By the use of Prudential Borrowing. Currently It is anticipated that there will be no need to borrow in order to finance the Council's 2012/13 capital programmes. However, should there be a need to borrow during the year it is likely, given that investment interest rates are forecast to be below long term borrowing rates for the year, that any borrowing will be of an internal nature i.e. from the Council's cash balances.

b) From Usable capital receipts. With regard to the General Fund capital programme it is anticipated that it will be part funded by capital receipts arising from the sale of Wilton House, the Old Art Gallery and 21 Church Street, Warwick, the receipts from which will be received in either 2011/12 or 2012/13. The Housing Investment Programme does not anticipate any council house sales during 2012/13 although this may change as a result of the current consultation on changes to the Right to Buy rules. However, as under current proposals any receipts generated will have to be used to finance replacement houses for those that have been sold. Currently, any financing of the 2012/13 Housing Investment Programme from capital receipts will be from receipts in hand from previous years.

c) From revenue or reserves.

d) From external contributions and grants . With regard to the General Fund capital programme, it is anticipated that external contributions will be used to part finance the 2012/13 programme on such schemes as HS2, Cubbington Flood Alleviation, Play Equipment and Jubilee House (former Kenilworth Police Station). With regard to the Housing Investment Programme it is expected that grants and contributions amounting to £1,264,900 will be utilised to finance General Fund Housing RSL projects and Improvement Grants

3.2 The Council's proposed 2012/13 General Fund capital programme amounts to £2,479,700. It is currently intended to finance this as follows:-

a) Contributions from revenue and reserves £613,800
b) External contributions and grants amounting to £233,000
c) Capital Receipts £1,632,900

3.3 The Council's 2012/13 expected Housing Investment Programme amounts to

£9,240,600 and currently will be financed as follows:-

a) £1,264,900 capital grants and contributions
b) £1,291,500 capital receipts from the sale of council houses in previous years
c) £6,684,200 from revenue and reserves

3.4 If deemed to be advantageous due to the expected path of interest rates, the Council may borrow in advance of need subject to prior appraisal of the risk and the borrowing must not take place in excess of 18 months before the anticipated need.

3.5 In addition to the capital programmes financing strategy outlined above it is necessary to have a separate strategy relating to the financing of the HRA self financing settlement of approx. £140m. The Council will need to have this amount available on the 28th March when the debt settlement payment has to be made to DCLG (Department for Communities and Local Government) and because of the special rate being offered by the PWLB for loans relating to the debt settlement it is anticipated that any external borrowing will be solely from the PWLB.

3.6 The exact structure of this debt is currently being considered by officers and Sector in order to ensure that it meets the requirements of the HRA Business Plan and the overall treasury management requirements of the Council. The final structure of the debt will be approved, under delegated powers, by the Head of Finance and Head of Housing and Property Services in consultation with the Portfolio Holders for those respective services.

3.7 As part of their ongoing services, Sector will monitor the debt portfolio during 2012/13 identifying, where appropriate, any opportunities for debt restructuring although these are expected to be minimal, if at all.

4. TEMPORARY BORROWING

4.1 The Council will continue to engage in short term borrowing (up to 364 days) when necessary in order to finance temporary cash deficits, however by managing our cash flow effectively these will be kept to a minimum. In each case, wherever possible, the loan will be taken out for periods of less than 7 days in order to minimise the interest payable.

5. TREASURY LIMITS AND PRUDENTIAL INDICATORS FOR 2012/13 TO 2014/15

5.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Authorised Limit". The Council must have regard to the Prudential Code when setting its Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax / rent levels is acceptable. Whilst termed an Authorised Limit, the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. The limits shown in the table in paragraph 5.2 include the impact of the HRA Self Financing debt settlement which takes place on the 28th March hence the inclusion of the revised 2011/12 limit in the table. It also includes the HRA "Headroom" which is the amount that the HRA can borrow between the debt settlement and the Debt Cap set under the Self Financing regime.

5.2 The Authorised Limits to be recommended to Council by the Executive are included in the Budget report elsewhere on this agenda and are expected to be ratified by the Council at its meeting on 22nd February. They are also displayed in the table below :-

Authorised Limit	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Debt	9.10	12.10	12.10	12.10
Add HRA Settlement	140.00	140.00	140.00	140.00
HRA Head Room	13.84	13.84	13.84	13.84
Other Long Term Liabilities	0.15	0.62	0.59	0.56
Total	163.09	166.56	166.53	166.50

5.3 The Prudential Indicators required by the code are explained in more detail in the report on the budget and those relevant to an integrated treasury management strategy are reproduced below:-

That the Council has adopted the revised CIPFA Treasury Management Code of Practice which it did in February 2011.

Capital Financing Requirement

Year	**General Fund (inc. GF HIP element)**	**HRA (inc. Debt Settlement)**	**Overall**
2011/12	-£1,326,896	£139,629,796	£138,302,900
2012/13	-£1,326,896	£136,893,160	£135,566,264
2013/14	-£1,326,896	£134,156,524	£132,829,628
2014/15	-£1,326,896	£131,419,888	£130,092,992

Incremental Impact on Council Tax / Housing Rents

Year	Council Tax	Housing Rent
2012/13	£1.51	£0.00
2013/14	£2.56	£0.00
2014/15	£3.76	£0.00

Operational Boundary for External Debt

Operational Boundary	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Debt	1.10	1.10	1.10	1.10
Add HRA Settlement	140.00	140.00	140.00	140.00
HRA Head Room	13.84	13.84	13.84	13.84
Other Long Term Liabilities	0.15	0.12	0.09	0.06
Total	155.09	155.06	155.03	155.00

As a result of HRA Self Financing, the Council is also limited to a maximum HRA CFR. This limit is currently:-

HRA Debt Limit	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Total	153.84	153.84	153.84	153.84

5.4 In addition certain indicators that used to be part of the Prudential Code are now part of the Treasury Management Code of Practice and are shown below :-

Upper limits to fixed interest rate and variable interest rate exposures

Year	Upper Limit - Fixed Rate	Upper Limit - Variable Rate
2012/13	100%	30%
2013/14	100%	30%
2014/15	100%	30%

Upper and Lower Limits respectively for the Maturity Structure of Fixed Interest Rate Borrowing

Period	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Upper and Lower Limits respectively for the Maturity Structure of Variable Interest Rate Borrowing

Period	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%

As the structure of loans making up the Housing Self Financing debt settlement portfolio has still to be determined it is felt advisable to set the Upper and Lower Limits for the maturity structure of both fixed and variable interest rate borrowing as per the tables above in order to provide the maximum flexibility. These indicators will then be revised in 2012/13 to reflect the actual structure of the debt taken out on the 28th March.

5.5 **Principal sums invested for periods longer than 364 days**

The total maximum sum that can be invested for more than 364 days is 40% of the core investment portfolio subject to a maximum of £9 million at any one time.

6. ANNUAL INVESTMENT STRATEGY.

6.1 The Council's Annual Investment Strategy for 2012/13 is contained within Appendix B.

7. BEST VALUE

7.1 From 2011/12 the Council has participated in Sector's new investment risk management benchmarking service in order to provide benchmarks against which the in house function could monitor its performance. The Council is part of a local group comprising both District and County Councils and our investment rate of return is benchmarked on a weighted average basis against the Sector Model Portfolio and the returns experienced by the other club members. In 2012/13, the Council will seek to achieve a weighted average rate of return in line with the Sector Model Portfolio which is based upon the best possible return whilst providing the maximum security for the capital invested.

7.2 The internal treasury function will also seek to achieve an average rate of return on its Money Market investments of 0.0625% over the LIBID (London Inter Bank Bid Rate) average for comparable investment periods (e.g. up to 7 day, 1 to 3 months, 3 to 6 months and over 6 months). This benchmark was previously 0.0625% under LIBID which was consistently being out-performed. Members requested the Treasury function to see if a more challenging benchmark could be found. Despite research and discussions with Sector, it appears that no more appropriate benchmark can be found. However, it is felt appropriate to make the benchmark 0.0625% over LIBID.

7.3 Should the Council employ external investment agents during 2012/13 suitable performance indicators will be agreed with the agents similar to that which operated under the previous Invesco agreement e.g. the fund will be required to outperform the Financial Times 7 day LIBID rate compounded weekly with a target return of 110% of the benchmark over a 3 year rolling period.

7.4 The Council's performance for the year is reported in the Annual Treasury Management report which is presented to the Finance and Audit Scrutiny Committee after the end of the year to which it relates.

8. EXTERNAL TREASURY MANAGEMENT ADVISERS

8.1 The Council employs Sector Treasury Services as its Treasury Management advisers and they are in the third year of their current three year contract which has an option to be extended for a further two years.

9. BANKING SERVICES

9.1 The Council currently employs HSBC Bank to provide its banking services and. the current contract expires on 1st March 2015.

10. OTHER ISSUES

10.1 The Council has entered into a joint venture with Waterloo Housing Association in which Council land will be sold on a deferred basis to the Housing Association in order to provide resources for additional social housing. Local Authority accounting requires that a certain portion of the deferred capital receipt has to be treated as investment income and the Treasury Management function will be advising on the accounting transactions involved.

10.2 The Council's treasury consultants, in conjunction with a number of other authorities , have devised a scheme whereby a Local Authority will guarantee to the lending bank a proportion of a borrowers mortgage against default and is aimed at enabling people who are capable of affording the monthly repayments on a mortgage but who are unable to provide the increased deposits that mortgage lenders are currently demanding following the "credit crunch" to enter the housing market and thus free up properties for social housing purposes. The Council joined the pilot scheme and further developments of this scheme will be the subject of a future report to the Executive. Should we participate in the scheme, currently this would involve the making of an advance to the bank equal to the guarantee in total which for our purposes will be treated as capital expenditure and will be accounted for as a Long Term Debtor in much the same way as the few remaining Sale of Council House mortgages are. The bank giving the mortgage will pay interest on this advance at an attractive interest rate. The advance will be the security against which any defaults will be charged and the Treasury Management function will be advising on the treasury management implications of the scheme.

APPENDIX C 2012/13 ANNUAL INVESTMENT STRATEGY

1. BACKGROUND

1.1 This Council has regard to the Governments Guidance on Local Government Investments and CIPFA's updated Treasury Management in Public Services Code of Practice. Section 15(1) of the 2003 Local Government Act requires councils to have regard to such guidance as the Secretary of State may issue. Guidance was issued in 2004 and has subsequently been updated but with no major changes over and above that contained in the revised Prudential Code. The general policy objective is that local authorities should invest prudently the temporarily surplus funds held on behalf of their communities. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. The guidance states that an Annual Investment Strategy must be produced in advance of the year to which it relates and must be approved by the full Council. The Strategy can be amended at any time and it must be made available to the public.

2. INVESTMENTS

2.1 In line with the guidance, this Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the headings of Specified and Non Specified Investments. These are listed in the tables in 2.2.

2.2 Specified investments are defined as those with a high credit rating, which for this Council is a Fitch sovereign rating at least equal to that of the United Kingdom at the point at which the investment was taken out, at least F1 short term, A+ long term (except in the case of a part or fully nationalised UK bank where the debts are guaranteed by the UK Government in which case the minimum long term rating will be A) , a Viability Rating of at least BBB and a support indicator of 1. The Council will also have regard to the ratings published by the other 2 main agencies, Moody's and Standard & Poors together with any ratings watch notices issued by the 3 agencies as well as articles in the Financial press and market data. In addition to credit ratings the Council will also use Credit Default Swap data to determine the suitability of investing with counterparties. Credit Default Swaps (CDS) are a form of "insurance premium" against defaulting taken out by investors when making investments and if the Market perceives problems with the counterparty then the margin on the CDS will widen (i.e. the insurance premium will increase) thus providing warnings for future investors with that counterparty that it might have problems repaying their investment. The Council will monitor the CDS's on the counterparties within its lending list and if there are significant movements on a counterparty such as it moves out of a pre-determined range which will be determined with the aid of the Councils Treasury Consultants then that counterparty will be removed from the list until such time as it moves back within range. An explanation of credit rating terms appears in Appendix D. The investment must be for a maximum of 364 days.

Although the Council does not expect to use external investment agents in 2012/13, they are included in the circumstance of use column in the tables overleaf to allow for their possible use should it be appropriate to do so.

Specified Investments					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Debt Management Agency Deposit	Yes	UK Government Backed	In House	£6m	364 days
Deposits with UK Government , Nationalised Industries, Public Corporations or other Local Authorities	Yes	High security e.g investment secured on all revenues of Local Authority	In House and by external fund manager	£6m	364 days
Deposits with Banks with maturities up to 364 days (inc. Business Call ,Reserve Accounts and Special Tranches) and including forward deals	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ Viability BBB Support indicator of 1	In House and by external fund manager	Private Sector £5m	364 days in aggregate
Deposits with UK Banks part or wholly owned by the UK Government - maturities up to 364 days (inc. Business Call ,Reserve Accounts and Special Tranches) and including forward deals	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A Viability BBB Support indicator of 1	In House and by external fund manager	£6m	364 days in aggregate

Specified Investments					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Deposits with subsidiaries of UK banks where the subsidiaries debts are explicitly guaranteed by the parent bank e.g. Cater Allen whose parent is Santander	Yes	Unrated but with explicit guarantee from parent bank and parent bank meets our minimum credit rating criteria of Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ (A if owned or part owned by UK Government) Viability BBB Support indicator of 1	In House and by external fund manager	£5m (subject to group limit including parent bank)	3 months
Deposits with Building Societies including forward deals	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Long Term A+ and Short term F1 Less than A+ Long Term but with Short term rating of F1 or above	In house and by external fund manager	£4m £2m	364 days in aggregate
Money Market Funds	Yes	Either Standard & Poors AAAm or Moody's AAA and volatility rating MR1+ or Fitch AAA and volatility rating VR1+	In house and by external fund manager	£6m	Not defined as subject to cash flow requirements
Certificates of Deposit issued by	Yes	Minimum Fitch Sovereign Rating of	In house (through	Private sector £5m	364 days

Banks and Building Societies		at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ Viability BBB Support indicator of 1	Custodian) and by external fund manager		

Specified Investments (continued)					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Certificates of Deposit issued by Banks and Building Societies part or wholly owned by the UK Government	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A Viability BBB Support indicator of 1	In house (through Custodian) and by external fund manager	£6m	364 days
Gilt Edged Securities	Yes	UK Govt. backed	In house (through Custodian) and external fund manager	£6m	Not defined
Eligible Bank Bills	Yes	Minimum credit rating as determined by external fund manager	External fund manager only	£5m	364 days
Treasury Bills	Yes	UK Govt. backed	In house (through Custodian) and external fund manager	£6m	Not defined
Bonds issued by Supranational Institutions or Multi Lateral Development Banks	Yes	AAA or government guaranteed	In house (through Custodian) and external fund manager	£5m	Not defined

Specifed Investments (continued)					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Sterling Securities guaranteed by HM Government	Yes	UK Govt. backed	External fund manager only	£6m	Not defined

2.3 As a means of further diversifying risk whilst obtaining a reasonable return for cash flow derived investments, the Council uses the SunGard Money Market Funds Portal which will enable it to open further Money Market Funds as necessary and to be able to see on a daily basis before deciding with whom to invest which funds are offering the best rates.

Non – Specified Investments					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Deposits with unrated building societies	yes	Limited to those with a minimum of £500m assets .	In house	£1 million	3 months
Deposits with banks greater than 1 year (including any forward dealing)	No	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ Viability BBB Support indicator of 1	In house after consultation with Treasury Advisers External fund manager	£9 million (in total). Individual limit £5m per specified investments for private sector	2 years
Deposits with UK Banks part or wholly owned by the UK Government greater than 1 year including forward deals	Yes	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A Viability BBB Support indicator of 1	In House after consultation with Treasury Advisers and by external fund manager	£9 million (in total). Individual limit £6m per specified investments for part or wholly nationalised banks	2 years

Non – Specified Investments (continued)					
Investment	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating**	**Circumstance of Use**	**Maximum Limit per Counterparty**	**Maximum Period**
Deposits with building societies greater than 1 year (including any forward dealing)	No	Minimum Fitch Sovereign Rating of at least equal to that enjoyed by the United Kingdom, Short term F1 Long Term A+ Viability BBB Support indicator of 1	In house after consultation with Treasury Advisers External fund manager	As above - £9 million (in total). Individual limit £1m	2 years

2.4 It is necessary to outline the reasons why the Council would use non specified investments and also the risks involved. The use of unrated building societies alongside Business Reserve and Call Accounts and Money Market Funds forms a useful tool for investing relatively small amounts of money for short periods of time (up to 3 months) and obtaining a decent return on the investment. There is of course a risk that the Building Society may fail during the maximum 3 month duration of an investment but this is not considered likely for any unrated society as it is likely that a larger society would absorb them in practice. As an additional safeguard, the Council will only invest in unrated Building Societies with an asset value of £500m and over. With regard to deposits for more than one year, the advantage from a treasury management point of view is that there is a known rate of return over the period that the monies are invested which aids forward planning. There is however the increased risk due to the longer time span that a) the institution fails or b) interest rates rise in the meantime. The current limit for investments longer than 364 days is 40% of the core investment portfolio subject to a maximum of £9 million at any one time. No investments for more than 364 days will be made without the advice of our Treasury Consultants on the likely movement of interest rates over the period of the proposed investment and any investments over 364 days with building societies will be limited to £1m per counterparty.

3. INVESTMENT OBJECTIVES

3.1 All investments will be in sterling. The Council's investment priorities are the security and liquidity of its investments. The Council's objective will be to maximise the return whilst safeguarding the capital sum and avoiding cash flow problems. The Council will not engage in borrowing for purely investment purposes.

4. SECURITY OF CAPITAL

4.1 The Council relies on credit ratings published by Fitch Ratings which are supplied to it by its Treasury Advisers, whilst not the principal credit rating service used by the Council, attention will also be paid to credit ratings published by Moody's Investor Services and Standard & Poor's which are also supplied by Sector in order to broaden the sources of intelligence from which the Council gathers opinions on the performance of its investment counterparties. These ratings are used to establish the credit quality of counterparties and investment schemes. These institutions also issue regular ratings watch bulletins and where these are negative and affect one of our counterparties this will be taken into account when deciding whether or not to place future investments with them. The Council has also determined the minimum long term (more than 1 year), short term (1 year or less) and other credit ratings it deems to be high for each category of investment and these are as shown in paragraph 2.2 above.

4.2 Individual credit ratings will be revised as and when changes are notified to the Council by its Treasury Advisers. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria then the counterparty / investment vehicle will no longer be used with immediate effect. This also applies to investments placed by fund managers. Similarly if a counterparty is upgraded so that it meets the Council's minimum credit rating requirements then it will be added to the Council's counterparty list.

4.3 The Council will also use the Credit Default Swap (CDS) information supplied by its Treasury Consultants to determine levels of investments with its counterparties once they have been selected using the criteria set out in 2.2 above. Counterparties with an in range CDS (as determined by our consultants) will be invested in as per the limits defined for that particular category of counterparty . Those counterparties with a monitoring status will not be invested in without first referring to our consultants for advice and those counterparties with an out of range CDS will not be invested in until their CDS returns to within range.

5. INVESTMENT BALANCES / LIQUIDITY OF INVESTMENTS

5.1 Based on its cash flow forecasts, the Council anticipates that its investments in 2012/13 on average will be in the region of £33m of which £23m will be "core" investments i.e. made up of reserves and balances which are not required in the short term**.**

5.2 The maximum percentage of its core investments that the Council will hold in long term investments (365 days or over) is 40%. It follows therefore that the minimum percentage of its overall investments that the Council will hold in short term investments (364 days or less) is 60% . Having regard to the Council's likely cash flows and levels of funds available for investment the amount available for long term investment will be a maximum of 40% of the core investment portfolio subject to a total of £9 million at any one time in line with the proposed Prudential Indicator covering this issue. These limits will apply jointly to the in house team and any fund manager so that the overall ceilings of 40% and £9 million are not breached.

6. INVESTMENT STRATEGY

6.1 The Council will continue to make use of its MoneyMarket Funds (MMF's) and the Money Markets to invest cash flow driven money to known dates where large debts such as precepts, NNDR etc. have to be paid out. Based on the cash flow experienced to date in 2011/12 it is unlikely that this will result in the average length of an investment being more than 3 months in 2012/13 and probably considerably less. Core investments (i.e. investments not needed for payment of debts) will continue to be invested in the best part of the market based on the advice issued by our Treasury Advisers. At the time of writing this report, Sector are advising that all investments whether cash flow or core unless with part or fully nationalised UK banks should be limited to a maximum of three months during the current economic uncertainties particularly with regard to the Eurozone.

6.2 The 2012/13 interest rate outlook is for Bank Rate to remain at 0.50% throughout the year depressing investment returns. The Council remains exposed to the building society sector albeit to a lesser extent than before and in addition to try and maximise the return on our investments whilst fully protecting the security of the capital, the Treasury Function has considered various ideas and it is proposed that:-

a).The Council opens up a Custodian account with King & Shaxson, a leading company in these sorts of facilities, which will allow the Council to buy Certificates of Deposits (CD's) , UK Govt. Gilts, Treasury Bills etc without having to set up expensive custodian facilities ourselves. This should give us access to highly credit rated banks who would not normally be interested in the size of deposit that we have to offer but who are offering good rates on instruments such as CD's. CD's are very much like fixed Money Market deposits but with the advantage of being tradable so should we require the cash invested in a CD before its maturity date we can sell it, often with little or no loss in capital value. In addition we would be able to buy UK Government Gilts again enhancing the security in the portfolio whilst still earning a good rate of interest. The estimated fees payable to King & Shaxson are below the £5,000 threshold requiring either quotes to be obtained or a full EU tendering exercise to take place under the Council's Code of procurement Practice.

b) Explicitly guaranteed subsidiaries which are not rated in their own right are added to our counterparty list but with a maximum duration of 3 months and subject to an overall group limit including their parent bank. There are a number of banks e.g. Cater Allen who are active in the Money Markets and looking for deposits of the size that the Council has to offer, typically 1 to 2 million pounds whilst offering attractive interest rates. However, we can't invest with them as they are not credit rated, not because they are not credit worthy but rather their debts are legally explicitly guaranteed by a parent bank and therefore enjoy the same credit rating by proxy as their parent. In Cater Allens case, the parent is Santander UK who meet our minimum credit rating criteria.

c) The Council continues to invest in unrated building societies according to the current limits e.g. £1m for a maximum of three months. However, a floor of a minimum of £500m in assets to be introduced pending a review of better ways to assess the creditworthiness of unrated building societies e.g. liquidity, borrowings .v. mortgages is carried out.

6.3 Based on the use of Banks, Building Societies and MoneyMarket Funds it is currently estimated that the overall portfolio will achieve a 1.39% return for 2012/13 although hopefully the use of Custodians and explicitly guaranteed subsidiaries may improve this.

7. EXTERNAL CASH FUND MANAGEMENT

7.1 The performance of fund managers will be kept under review using our Treasury Consultants and should it be felt appropriate to do so then the Council may engage a fund manager in order to enhance returns and spread risk. The appointment process will be subject to the Council's procurement rules and handled in conjunction with our Treasury Consultants in order to ensure that the Council secures best value.

8. END OF YEAR INVESTMENT REPORT

8.1 The Treasury Management Code of Practice recommends that the Treasury Management function reports on its in year activities at least twice i.e. at mid year and at the end of the year. Currently Finance and Audit Scrutiny Committee which is the body charged with overseeing Treasury Management on behalf of the Council receives quarterly reports as well as the end of year report. Finance and Audit Scrutiny Committee members will be asked to determine the frequency of progress reporting that they wish to see from 2012/13 onwards.They will still receive the end of year report as this is a statutory requirement.