Lewes District Council

Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17

Contents

1. Executive Summary

1.1 Borrowing – the Council can borrow to finance capital expenditure in a similar way to an individual taking out a mortgage to buy a house. At 31 March 2014, total cumulative capital expenditure which will need to be funded amounts to £72.0 m. The actual long term-borrowing (the mortgage) that we have is only £56.7m because we are using the cash held in our reserves to make up the difference, rather than invest that money. (See Sections 6 and 7 for the details).

1.2 Debt rescheduling – our current loan portfolio was established only recently, in March 2012. We do not anticipate any significant change in 2014/2015 (See Section 8 for the details).

1.3 Accounting for debt – the Council will adopt a two-Pool approach in order to manage and account for the debt of the General Fund/Housing Revenue Account. (See Section 9 for the details).

1.4 Investing – at any given time, the Council has varying amounts of cash consisting of reserves and balances, as well as working capital, which must be held securely. The security of our investments is our highest priority. We have defined the types of investment that we will make and the criteria that those organisations with which we will deal must meet. (See Sections 10 and 11 for the details).

1.5 Providing for the repayment of debt – we will continue to make formal annual provisions to repay our long term borrowing, and will also build up a fund in the Housing Revenue Account Balance so that debt can be repaid if we choose to do so. (See Section 14 for the details).

1.6 Reporting – we will closely monitor our Treasury Management activity and make reports to every meeting of the Council's Audit and Standards Committee and Cabinet. (See Section 15 for the details).

2. Treasury Management Defined

2.1 The Council defines its Treasury Management activities as:

> *"the management of the Council'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."*

2.2 Treasury Management is not undertaken in isolation. The Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management and ensuring that performance is monitored and reported. All Treasury Management activity takes place within the context of effective risk management.

3. Scope of the Treasury Management Strategy Statement

3.1 This Strategy Statement sets out the Council's approach to financing (borrowing) and investment for the financial year but also sets the context for the following two years.

3.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in Public Services (the "TM Code"). This requires local authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of the financial year.

3.3 This Strategy Statement also incorporates the formal Investment Strategy which is necessary to comply with guidance issued by the Department for Communities and Local Government. (DCLG).

3.4 The Strategy sets out the context to Treasury Management in terms of the Council's financial resources as measured in its Balance Sheet and external factors, in particular the outlook for interest rates. It considers how the Revenue Budget and Capital Programme will impact on the Balance Sheet position.

4. Approach to Risk

4.1 The Council has borrowed and expects to invest substantial sums of money and is therefore exposed to financial risks including the revenue effect of changing interest rates and, in the extreme, the loss of invested funds.

4.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. No Treasury Management activity is without risk. The main risks to the Council's Treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (adequacy of cash resources)
- Market or Interest Rate Risk (exposure to fluctuations in interest rate levels)
- Inflation Risk (exposure to inflation)
- Refinancing Risk (impact of debt maturing in future years)
- Legal & Regulatory Risk (compliance with statutory powers and regulatory requirements)
- Fraud, Error and Corruption and Contingency Management (maintenance of sound systems and procedures)

4.3 The credit risk of banking failures has diminished but not dissipated altogether. Regulatory changes are expected in the UK, US and Europe to move away from 'bail-outs' of failing banks by governments, to 'bail-ins' in which shareholders and unsecured creditors contribute by giving up a proportion of their holdings. Diversification of investments to mitigate bail-in risk becomes even more important in the light of these developments.

5. Outlook for Interest Rates

5.1 The detailed economic interest rate outlook provided by the Council's Treasury advisor, Arlingclose Ltd, is attached at Appendix A. In summary, the official Bank Rate is predicted to remain at 0.5% for the whole of the period covered by this Strategy ie to March 2017.

5.2 Interest rates are of fundamental importance to the Council's Treasury Management operation. The ideal scenario would be to make short-duration investments if interest rates are low and are expected to rise and to invest for longer periods if interest rates are considered to be at their peak and are expected to fall. In terms of borrowing, it is preferable to borrow short-term when interest rates are high and expected to fall and to undertake long-term borrowing when interest rates are low and expected to rise.

5.3 The estimate for external interest payments in 2013/2014 is £1.73m and for external interest receipts is £0.050m. The estimate for interest receipts is based on the expectation that rates remain stable and that all new deposits in the year will earn interest at the rate achieved in 2013/2014, 0.40%.

5.4 The following table puts the amounts of interest payments and receipts into context, with the significant reductions in interest receipts since 2011/2012 reflecting the strategy of increased internal borrowing, as well as a period of falling investment interest rates.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Interest payments – (before Housing self-financing)	0.225	0.225	0.225	0.225
Interest payments – self-financing debt	-	1.505	1.505	1.505
Interest receipts from external deposits	0.120	0.053	0.036	0.050

Note: the amounts shown above represent interest payments on external loans and interest receipts from external investments. They exclude transactions between the Housing Revenue Account (HRA) and General Fund, eg £0.142m to be paid by the HRA as interest on internal borrowing in 2014/15.

5.5 The Council's need to borrow and its ability to invest are interrelated, as explained elsewhere in this Strategy Statement. The Council will reappraise its strategy in both of these areas from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates. Any such changes will require the prior approval of Cabinet.

6. The Need to Borrow Long Term

6.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes by specifying 'debt caps'. This

Council's debt cap has been fixed at £72.931m and borrowing cannot exceed that amount.

6.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This, together with Balances and Reserves, are the core drivers of Treasury Management activity.

6.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. External borrowing is where loans are raised from the Public Works Loans Board or banks. Alternatively it is possible to use the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other borrowers as a means to avoid taking on external loans. This is known as internal borrowing.

6.4 The CFR is calculated each year in accordance with a statutory formula. As noted above, the level of CFR increases each year by the amount of capital expenditure which is yet to be financed and is reduced by the amount that the Council sets aside for the repayment of borrowing. This is illustrated in the table below (amounts from 2014/2015 onwards are indicative). It includes planned expenditure in 2013/2014 on the refurbishment of Southover House as part of the Council's Agile Working project.

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Opening CFR	70.421	71.030	71.880	70.291	68.451
Capital exp in year	8.331	14.893	7.746	7.066	6.965
Less financed	(6.983)	(12.683)	(7.473)	(7.066)	(6.965)
Less amount set aside for debt repayment	(0.739)	(1.360)	(1.862)	(1.840)	(1.833)
Closing CFR	71.030	71.880	70.291	68.451	66.618

6.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
General Fund CFR	3.043	4.676	4.512	4.370	4.235
HRA CFR	67.987	67.204	65.779	64.081	62.383
Total CFR	71.030	71.880	70.291	68.451	66.618

6.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use):

	31/3/13 £m	31/3/14 £m	31/3/15 £m	31/3/16 £m	31/3/17 £m
(a) Capital Financing Requirement	71.030	71.880	70.291	68.451	66.618
(b) Actual external borrowing	(56.673)	(56.673)	(56.673)	(56.673)	(56.673)
(c) Use of Balances and Reserves as alternative to borrowing (a)–(b)	14.357	15.207	13.618	11.778	9.945
(d) Total Balances and Reserves	15.967	13.517	12.350	11.514	11.076
(e) Working capital	5.402	5.402	5.402	5.402	5.402
(f) Amount used as an alternative to borrowing (c) above	(14.357)	(15.207)	(13.618)	(11.778)	(9.945)
(g) Total investments (d)+(e)+(f)	7.012	3.712	4.134	5.138	6.533

6.7 The table above (line g) indicates that, if working capital remains stable, it will be possible to continue the current approach of internal borrowing as an alternative to raising new external loans, which remain at their current level across the period (line b). However, it will be necessary to monitor the position closely. Market conditions, interest rate expectations and counterparty and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The following section explains the approach to borrowing in more depth.

7. Borrowing Strategy

7.1 As noted above, the Council's underlying need to borrow for capital purposes is measured by reference to its CFR. In respect of General Fund activities, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year in order to ensure that the underlying need to borrow is ultimately eliminated. There is no requirement to make a provision to reduce HRA borrowing, although it is prudent to do so.

7.2 Capital expenditure not paid for from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the Revenue Account.

7.3 In accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

The cumulative estimate of the Council's long-term borrowing requirement in respect of historic and planned capital expenditure is shown in the table below. It falls from £15.2m to £9.9m at 31 March 2017, as a result of provision being made by the HRA for the repayment of debt. The table excludes £5.7m of potential borrowing for housing projects (at 31 March 2014), permissible up to the level of the Council's Debt Cap.

	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m	31/03/2017 Estimate £m
Capital Financing Requirement	71.9	70.3	68.5	66.6
Less: Profile of current Borrowing	56.7	56.7	56.7	56.7
Cumulative Maximum External Borrowing Requirement	15.2	13.6	11.8	9.9

7.4 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

7.5 With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. For example, the current rates (January 2014) available to the Council (which include a 0.2% reduction under the local authority 'certainty rate' system introduced in November 2012) for 2-year and 5-year PWLB maturity loans are 1.70% and 2.76% respectively compared with 0.25% which can be earned on a temporary deposit with the Government. While this strategy is most likely to be beneficial over the next 2 to 3 years, as official interest rates remain low, it is unlikely to be sustained in the medium-term.

7.6 The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council's appointed Treasury advisor, Arlingclose, will assist the Council with this 'cost of carry' and breakeven analysis.

7.7 At some stage the level of General Fund Reserves and Balances will become depleted (as they are used for the purpose for which the funds were set aside) restricting the ability to borrow internally. This means that short term savings by avoiding new long term borrowing in 2014/2015 must also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years. The Director of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, liaising closely with Arlingclose. Any decision to borrow will be confirmed with the Cabinet Member for Corporate Services and reported to the next meeting of the Cabinet.

7.8 The Council may borrow short-term loans (normally up to one month) to cover unexpected cash flow shortages should they arise.

7.9 The approved sources of new long-term and short-term borrowing will be:

- Public Works Loans Board
- UK Local Authorities

- any bank or building society approved for investments (see Section 11) below.

In the event that alternative sources of borrowing are identified in the year, which are considered to be more appropriate in the context of the overall strategy, a report will be made to Cabinet and Council. Arlingclose will assist the Council with the analysis of options.

7.10 The PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide.

8. Debt Rescheduling

8.1 At the time of preparing this Strategy, the Council’s loan portfolio was as shown below:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.7000	01/03/2024
PWLB	Fixed	5.00	3.3000	01/03/2032
PWLB	Fixed	2.00	3.0500	01/09/2027
PWLB	Fixed	2.00	2.7600	01/09/2024
PWLB	Fixed	4.00	2.9700	01/09/2026
PWLB	Fixed	5.00	3.2800	01/09/2031
PWLB	Fixed	4.00	2.6300	01/09/2023
PWLB	Fixed	5.00	3.4400	01/03/2037
PWLB	Fixed	6.67	3.5000	01/03/2042
PWLB	Fixed	5.00	3.4300	01/09/2036
PWLB	Variable	5.00	0.6200	28/03/2022
PWLB	Fixed	4.00	3.0100	01/03/2027
	Sub-total	51.67		
Barclays	LOBO	5.00	4.5000	06/04/2054
	Total	56.67		

8.2 The Lender’s Options Borrower’s Option (LOBO) loan shown in the table above was taken out in April 2004 at the rate of 4.5% with a term of 50 years. Every 4 years, the Lender has the option to increase the interest rate, and if it does so, the Council has the right to repay. The next date when the rate/terms of the loan will be reviewed is April 2016.

8.3 All of the PWLB loans listed above were taken out in March 2012 in order to finance the payment to the Government needed for the national transition to self-financing for local authority housing.

8.4 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to set a formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. With the debt portfolio having been only recently established, it is unlikely that debt rescheduling will be appropriate in 2014/2015. However the possibility of beneficial opportunities may arise and conditions will be kept under review. Any debt rescheduling activity will be confirmed with the Cabinet Member for Corporate Services and reported to the next Cabinet meeting. Reducing the level of cash held and, as a result, Credit and Counterparty risk.

9. The Housing Revenue Account Share of Treasury Management Costs.

9.1 Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

9.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their Strategy Statement.

9.3 The Council has adopted a ‘2 pool’ (General Fund and HRA) approach to accounting for long-term loans, all of which were allocated to the HRA on the introduction of ‘self-financing’ Any new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

9.4 At the start of each year, an assessment will be made of the difference between the value of the HRA loans pool and the HRA’s underlying need to borrow. If the resulting cash balance is negative, an ‘internal loan’ will be advanced from the General Fund (Reserves and Balance) to the HRA and interest charged at a rate equivalent to a one-year maturity loan from the PWLB at the start of the financial year. This is a reasonable approach and reflects the fact that strategic borrowing decisions will generally be made on an annual basis, as demonstrated in this Strategy. The same approach will be adopted for any new internal borrowing required in the year to support the cost of HRA capital expenditure not anticipated in the initial annual capital programme.

10. The Need to Invest

10.1 As shown in the table in paragraph 6.6 the Council currently holds healthy Reserves and Balances (£13.5m projected at 31 March 2014 excluding s106 Developer Contributions and Capital Receipts which will be used to fund the Capital Programme over the next three years). In simple terms, Reserves represent amounts of money which have been set aside for use in future years for specific purposes (eg to pay for the replacement of vehicles at the end of their useful life) and Balances are cash which is retained both to ensure that the Council is able to respond effectively if an unforeseen event arises (eg the failure of a major contractor) and also to act as a buffer against unpredicted cash flow movements. Reserves and Balances are forecast to reduce over the next three years as they are called upon to support projects, services and the Council’s deficit reduction programme.

10.2 Although a proportion of the Reserves and Balances are being used as an alternative to external long-term borrowing, this still leaves cash to be retained. In addition, the Council’s cash flow movements fluctuate on a day to day basis, with cash received exceeding cash paid out at key points over the year. The purpose of the Investment Strategy is to define the conditions under which this ‘surplus’ cash is to be managed, with the priority being security of the sums invested.

10.3 Guidance from DCLG on Local Government Investments in England requires authorities to set an Annual Investment Strategy. The speculative procedure of borrowing purely in order to invest is unlawful. However, taking on new external loans to reduce the level of internal borrowing is permissible, and, if this takes place, the Council will place importance on the flexibility of its loan portfolio as well as the liquidity of its investments.

11. Investment Strategy

11.1 The Council's general policy objective is to invest its surplus funds prudently, striking a balance between risk and return. The Council's investment priorities are:

highest priority -	security of the invested capital;
followed by -	liquidity of the invested capital (this enables the Council to react to changing circumstances)
finally -	an optimum yield which is commensurate with security and liquidity.

11.2 The Council and its advisors remain vigilant at all times, monitoring signs of credit or market distress that might adversely affect the Council.

11.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the DCLG Guidance.

- Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Council and are not deemed capital expenditure investments under Statute.
- Non specified investments are, effectively, everything else. The Council does not intend to make any investments denominated in foreign currencies nor any that are defined as capital expenditure (eg company shares). Non-specified investments will therefore be limited to long-term investments ie those that are due to mature 12 months or longer from the date of arrangement.

11.4 Potential investment instruments for use within the Council's investment strategy are set out in Appendix C with an indicative list of counterparties at Appendix D. It is important to note that not all of the types of investment listed above will necessarily be used. Before any type of investment instrument is used for the first time (eg Gilts), specific Cabinet approval will be sought.

11.5 The 2014/2015 investment strategy remains unchanged from 2013/2014 subject to:

- the inclusion as potential counterparties of Registered Providers (RP's) of Social Housing (with minimum long tern rating A) as potential counterparties. RP's are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. RP's operating locally are excluded in order to avoid the possibility of investments being deemed capital expenditure.

- the removal of the 2013/2014 strategy requirement for Money Market Funds (MMF's) in use to carry a AAA rating. This is in response to proposed EU regulatory reforms to MMF's which will, in all probability, result in these funds moving to a variable net asset value basis and away from their current AAA credit rating wrapper. The Council would seek the advice of Arlingclose before placing funds with a MMF which is not currently in use.
- an increase in the maximum able to be held in a MMF to £2m from £1m, in order to give increased day-to-day flexibility.

11.6 Supported by Arlinglose, the Council uses long-term and short-term credit ratings from the three main rating agencies (Fitch Ratings, Moody's Investor Service and Standard and Poor's Financial Services) to assess the risk of investment default. The lowest available counterparty credit rating will be used. The minimum ratings required will be long term A and short term F1 or equivalents for counterparties; AA+ or equivalent for non-UK sovereigns.

11.7 Credit ratings are obtained and monitored by Arlingclose who will notify changes in ratings as they occur. Where a counterparty has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost, will be recalled
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

11.8 Where a rating agency announces that a rating is on review for possible downgrade below the approved investment criteria, then only investments that can be withdrawn on the next working day will be made with that counterparty until the outcome of the review is announced. This approach will not apply to 'negative outlooks' which indicate a long-term direction of travel rather than an imminent change of rating.

11.9 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

11.10 At times of deteriorating financial market conditions affecting the credit worthiness of all organisations (as happened in 2008 and 2011), the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments.

11.11 Council's Banker – The Council currently banks with The Cooperative Bank which has announced its withdrawal from the local authority market. At the current time, its credit ratings are below the Council's minimum criteria. However, The Cooperative Bank will continue to be used for short term liquidity requirements (daylight cover, overnight and weekend investments) and business continuity arrangements. A procurement exercise will take place in Spring 2014 with the intention of switching to a new bank by April 2015.

11.12 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

11.13 MMFs will be utilised with the Council seeking to mitigate operational risk by utilising at least two MMFs. The Council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

11.14 The Director of Finance 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 investment portfolio will be reported to meetings of the Audit and Standards Committee and Cabinet.

11.15 All of the Council's investments are currently managed in-house and this approach will continue for the duration of this Strategy unless otherwise approved in advance by Cabinet.

12. The Use of Financial Instruments for the Management of Risks

12.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (eg interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (ie those that are not embedded into a loan or investment).

12.2 The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The Council does not intend to use derivatives and any change in this strategy would require full prior approval by Council.

13. Providing for Debt Repayment - 2014/15 Minimum Revenue Provision Statement

13.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on this MRP 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.

13.2 The four MRP options available are:

Option 1: Regulatory Method	Option 2: CFR Method
Option 3: Asset Life Method	Option 4: Depreciation Method

13.3 Options 1 and 2 may be used only for supported non-HRA capital expenditure (ie where the Government supports the cost of financing new borrowing through a recurring grant). Methods of making prudent provision for self financed non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

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

13.5 The Council's Policy for making a MRP will remain unchanged in 2014/2015 ie in respect of capital expenditure which is supported expenditure, Option 1 will apply – MRP will be equal to the amount determined in accordance with the former regulations 28 and 29 of the Local Authorities Capital Finance and Accounting (England) Regulations 2003 as if they had not been revoked. In the event that capital expenditure is incurred which is not Supported Capital Expenditure and is therefore self-financed, Option 3 will apply – MRP will be calculated according to the asset life method and will be made in equal instalments over the life of the asset.

13.6 The Housing Revenue Account 30-year Business Plan includes the principle that the long-term borrowing required on the move to self-financing will be repaid at the earliest opportunity. However, there is no requirement to do so and become 'debt-free'. In order to maintain flexibility, resources will be set aside in the HRA balance for potential debt repayment, but formal Revenue Provisions (which cannot be reversed) will not be made other than to reduce internal borrowing from the General Fund.

14. Reporting on the Treasury Outturn

The Director of Finance will report on Treasury Management activity/performance as follows:

Report to/Coverage	Frequency:
Council	
Treasury Management Strategy/Annual Investment Strategy/MRP Policy	Annually before start of the year
Treasury Management Strategy/Annual Investment Strategy/MRP Policy – mid year report	Annually mid year
Treasury Outturn report	Annually after year end and by 30 September
Cabinet	
Receives each of the above reports in advance of Council and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives details of Treasury transactions against Strategy	Every cycle
Audit and Standards Committee	
Receives each of the above reports in advance of Cabinet and makes observations as appropriate	In advance of year/mid-year/after year end and by 30 September
Reviews details of Treasury transactions against Strategy and makes observations to Cabinet	Every cycle

15. Training

15.1 The TM Code requires the Director of Finance, as responsible officer, to ensure that all councillors 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. Arlingclose will be asked to continue the briefing programme for Councillors which has been running since 2009 (the most recent session was held in September 2013).

15.2 The training needs of the Council's Treasury Management staff will be reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. The Council's contract with Arlingclose includes provision for staff to attend training seminars and workshops.

16. Investment Consultants

The Council has appointed Arlingclose as its financial advisers for the period 1 July 2012 to 30 June 2016. Arlingclose will be the Council's primary source of information, advice and assistance relating to investment activity. Individual investment decisions are made by the Council. Review meetings are held at least twice a year, at which the quality of the service received to date is discussed.

17. Publication

The Annual Treasury Management Statement and Investment Strategy, along with any in-year revisions, can be downloaded from www.lewes.gov.uk and is also available on request to the Director of Finance, Southover House, Southover Road, Lewes, or by email to finance@lewes.gov.uk.

Appendix A - Arlingclose's Economic and Interest Rate Forecast

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk													
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
Arlingclose Central Case	**0.45**	**0.45**	**0.50**	**0.55**	**0.65**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	**0.90**	**0.95**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**1.20**	**1.25**	**1.30**	**1.40**	**1.40**
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**	**1.85**	**1.95**	**2.10**	**2.30**	**2.50**	**2.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**3.00**	**3.10**	**3.30**	**3.50**	**3.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**	**3.65**	**3.75**	**3.85**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.45**	**3.50**	**3.55**	**3.60**	**3.65**	**3.70**	**3.75**	**3.80**	**3.85**	**3.95**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Commentary:

Background: The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

Credit outlook: The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Interest rate forecast: Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table below shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

Underlying Assumptions:

- Growth continues to strengthen. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has

discussed a third LTRO, as credit conditions remain challenging for European banks.

- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring of is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

Appendix B – Prudential Indicators 2014/2015 to 2016/2017

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme and are considered by Cabinet when the Capital Programme is set. These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement:

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Director of Finance reports that the Council has had no difficulty meeting this requirement in 2013/2014, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the draft budget for 2014/2015.

3. Estimates of Capital Expenditure (direct link to Capital Programme)

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

No.	Capital Expenditure	2013/14 Original £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
1a	Non-HRA	1.557	8.827	2.063	1.640	1.165
1b	HRA	4.595	6.066	5.683	5.426	5.800
	Total	**6.152**	**14.893**	**7.746**	**7.066**	**6.965**

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2013/14 Original %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
2a	Non-HRA	0.20	1.12	0.95	0.78	0.68
2b	HRA	11.45	18.69	21.51	21.51	21.51

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

No	Capital Financing Requirement	2013/14 Original £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
3a	Non-HRA	4.693	4.676	4.512	4.370	4.235
3b	HRA	68.559	67.204	65.779	64.081	62.383
	Total CFR	**73.252**	**71.880**	**70.291**	**68.451**	**66.618**

5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2013/14 Original £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Balance B/F	71.224	71.030	71.880	70.291	68.451
Capital expenditure financed from borrowing	2.200	2.210	0.273	0.000	0.000
Revenue provision for Debt Redemption.	(0.172)	(1.360)	(1.862)	(1.840)	(1.833)
Balance C/F	**73.252**	**71.880**	**70.291**	**68.451**	**66.618**

6. Actual External Debt

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

No.	Actual External Debt as at 31/03/2014	£m
4a	Borrowing	56.673
4b	Other Long-term Liabilities	0.000
4c	**Total**	**56.673**

7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

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

No.	Incremental Impact of Capital Investment Decisions	2013/14 Original £	2013/14 Revised £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
5a	Increase in Band D Council Tax	23.87	92.93	38.30	25.95	12.26
5b	Increase in Average Weekly Housing Rents	7.53	15.10	8.31	8.41	11.21

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure.

8. Authorised Limit and Operational Boundary for External Debt

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

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

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

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

No.	Authorised Limit for External Debt	2013/14 Original £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
6a	Borrowing	72.00	72.00	72.00	72.00	72.00
6b	Other Long-term Liabilities	0.50	0.50	0.50	0.50	0.50
6c	**Total**	**72.50**	**72.50**	**72.50**	**72.50**	**72.50**

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

8.6 The Director of 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 the Cabinet.

No.	Operational Boundary for External Debt	2013/14 Original £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
7a	Borrowing	66.50	66.50	66.50	66.50	66.50
7b	Other Long-term Liabilities	0.50	0.50	0.50	0.50	0.50
7c	**Total**	**67.00**	**67.00**	**67.00**	**67.00**	**67.00**

9. Adoption of the CIPFA Treasury Management Code

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

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the revised CIPFA Treasury Management Code in February 2010. The Council has incorporated the changes from the CIPFA Code of Practice and subsequent revisions into its treasury policies, procedures and practices.

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

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2013/14 Original £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
9	**Upper Limit for Fixed Interest Rate Exposure**	72.5	72.5	72.5	72.5	72.5
10	**Upper Limit for Variable Interest Rate Exposure**	(20.0)	(27.5)	(27.5)	(27.5)	(27.5)

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

10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

11. Maturity Structure of Fixed Rate borrowing

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

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

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
11a	under 12 months	0	70
11b	12 months and within 24 months	0	70
11c	24 months and within 5 years	0	75
11d	5 years and within 10 years	0	75
11e	10 years and above	0	100

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

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

No.	Upper Limit for total principal sums invested over 364 days	2013/14 Original %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
12	Upper limit	50	50	50	50	50

13. HRA Limit on Indebtedness

CIPFA's revised Prudential Code issued in November 2011 requires the determination of this Prudential Indicator, which is associated with the introduction of self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2013/14 Original £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
13a	HRA CFR	68.559	67.204	65.779	64.081	62.351
13b	HRA Debt Cap	72.931	72.931	72.931	72.931	72.931
	Difference	**4.372**	**5.727**	**7.152**	**8.850**	**10.548**

Appendix C - Types of Investment for use by the Council

Investment type	Cash limit	Time limit	Specified	Non-Specified
Term deposits with banks and building societies UK (minimum long term rating of A and short term F1 or equivalents) for counterparties; AA+ or equivalent for non-UK sovereigns	£3m	2 years	✓	✓
The Council's current account bank if it fails to meet the above criteria	£1m	next day	✓	✗
Term deposits with other UK local authorities	None	2 years	✓	✓
Term deposits with UK Registered Providers of Social Housing (minimum long rating A and located outside Sussex)	£1m	2 years	✓	✓
Certificates of deposit with banks and building societies	£3m	5 years	✓	✓
UK Government (eg T-Bills/Gilts)	None	5 years	✓	✓
Bonds issued by Multilateral Development Banks	None	5 years	✓	✓
Local Authority Bills	None	1 year	✓	✗
Corporate Bonds UK (minimum long term rating of A and short term F1 or equivalents)	£1m	5 years	✓	✓
Money Market Funds and Collective Investment Schemes	£2m	Not applicable	✓	✗
Debt Management Account Deposit Facility	None	1 year	✓	✗

Notes

The Council will hold a maximum of 50% of its investment portfolio in non-specified investments.

Specified investments have a maximum maturity of 1 year.

2 years is the maximum approved duration for term deposits and illiquid investments (those without a secondary market), although in practice the Council may be investing on a shorter term basis depending on the operational advice of its treasury management adviser.

5 years is the maximum approved duration for negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds, although in practice the Council may be investing for shorter periods depending on the operational advice of its treasury management adviser.

Appendix D – Indicative Counterparty List

New investments will be made within the limits shown in the table below. Non-UK banks will be restricted to an aggregate maximum exposure of 40% of the Portfolio at the time of investment, with a limit of 25% per country. Where appropriate, maximum limits apply to the Group to which a counterparty belongs.

The minimum credit ratings for Banks/Building Societies will be:
Long-term: Fitch A Moody's A2 Standard and Poor's A
Short-term: Fitch F1 Moody's P-1 Standard and Poor's A-1

Instrument	Country	Counterparty	Long/short term rating	Maximum Limit of Investments £	Activity '13/14
Term Deposits/ T-Bills	UK	DMADF, DMO	-	No limit	✓
Term Deposits/Call Accounts/LA-Bills	UK	Other UK Local Authorities	-	No limit	✓
Term Deposits/ Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	A/F1	£3m	✓
Term Deposits/ Call Accounts	UK	Lloyds TSB ((Lloyds Banking Group)	A/F1	£3m	
Term Deposits/ Call Accounts	UK	Barclays Bank plc	A/F1	£3m	
Term Deposits/ Call Accounts	UK	Coventry Building Society	A/F1	£3m	
Term Deposits/ Call Accounts	UK	HSBC Bank plc	AA-/F1+	£3m	
Term Deposits/ Call Accounts	UK	Nationwide Building Society	A/F1	£3m	✓
Term Deposits/ Call Accounts	UK	Santander UK plc (Banco Santander Group)	A/F1	£3m	✓
Term Deposits/ Call Accounts	UK	Standard Chartered Bank	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Australia	Australia and NZ Banking Group	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Australia	Commonwealth Bank of Australia	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Australia	Westpac Banking Corp	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Canada	Bank of Montreal	AA-/F1	£3m	
Term Deposits/ Call Accounts	Canada	Bank of Nova Scotia	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Canada	Canadian Imperial Bank of Commerce	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Canada	Royal Bank of Canada	AA/F1+	£3m	
Term Deposits/ Call Accounts	Canada	Toronto-Dominion Bank	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Finland	Nordea Bank Finland	AA-/F1+	£3m	
Term Deposits/	France	BNP Paribas	A+/F1	£3m	

Instrument	Country	Counterparty	Long/short term rating	Maximum Limit of Investments £	Activity '13/14
Call Accounts					
Term Deposits/ Call Accounts	France	Credit Agricole 'Calyon' CIB (Credit Agricole Group)	A/F1	£3m	
Term Deposits/ Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	A/F1	£3m	
Term Deposits/ Call Accounts	Germany	Deutsche Bank AG	A+/F1+	£3m	
Term Deposits/ Call Accounts	Netherlands	ING Bank NV	A+/F1+	£3m	
Term Deposits/ Call Accounts	Netherlands	Rabobank	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Netherlands	Bank Nederlandse Gemeenten	AAA/F1+	£3m	
Term Deposits/ Call Accounts	Sweden	Svenska Handelsbanken	AA-/F1+	£3m	
Term Deposits/ Call Accounts	Switzerland	Credit Suisse	A/F1	£3m	
Term Deposits/ Call Accounts	US	JP Morgan	A+/F1	£3m	
Gilts	UK	DMO	-	No limit	
Bonds issued by Multilateral Development Banks	-	For example: European Investment Bank/Council of Europe	-	No limit per name but limited to 50% in aggregate of whole portfolio	
Money Market Funds	UK/Ireland/ Luxembourg	CNAV MMFs	-	£2m limit per MMF	✓

Note 1. List prepared 15 January 2014. Subject to change if, for example, a counterparty is downgraded and no longer meets the approved credit criteria.

Note 2. In practice, many of the counterparties listed above will not be used during the course of the year, because they will require minimum investments in excess of the Council's limit. However, on occasion these counterparties may become available.

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. At present, the three main agencies providing credit

	rating services are Fitch Ratings, Moody's and Standard and Poor's.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
International Financial Reporting Standards (IFRS)	The set of accounting rules with which all local authorities have been required to comply from 1 April 2010.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.