REPORT FOR DECISION

Agenda Item	

DECISION OF:	**EXECUTIVE** **SCRUTINY COMMITTEE (INTERNAL)** **COUNCIL**
DATE:	**15 FEBRUARY 2012** **15 FEBRUARY 2012** **22 FEBRUARY 2012**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2012/13**
REPORT FROM:	**DEPUTY LEADER AND EXECUTIVE MEMBER FOR FINANCE**
CONTACT OFFICER:	**MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES** **STEPHEN KENYON, ASSISTANT DIRECTOR OF RESOURCES (FINANCE AND EFFICIENCY)**
TYPE OF DECISION:	**COUNCIL**
FREEDOM OF INFORMATION/STATUS:	The report is for publication
SUMMARY:	The report sets out the suggested Strategy for 2012/13 in respect of the following aspects of the Treasury Management function. It is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The Strategy covers: • treasury limits in force which will limit the treasury risk and activities of the Council; • prudential and treasury indicators; • the current treasury position;

	• prospects for interest rates; • the borrowing strategy; • the borrowing requirement; • debt rescheduling; • the investment strategy; • the minimum revenue provision policy; The primary objective of the Council's treasury management function will continue to be the minimisation of financing costs whilst ensuring the stability of the authority's long term financial position by borrowing at the lowest rates of interest and by investing surplus cash to earn maximum interest, all at an acceptable level of risk. The report also draws Members' attention to the Treasury Management implications of the new system of financing Council housing and the requirement to fund a payment to DCLG of £78.253m due on 28 March 2012. The overall strategy for 2012/13 will be to finance capital expenditure by running down cash/investment balances and using short term temporary borrowing rather than more expensive longer term loans. The taking out of longer term loans (1 to 10 years) to finance capital spending will only then be considered if required by the Council's underlying cash flow needs. With the reduction of cash balances the level of short term investments will fall. Given that investment returns are likely to remain low (say) 0.70% for the financial year 2012/13, then savings will be made from running down investments rather than taking out more expensive long term loans.
OPTIONS & RECOMMENDED OPTION	It is recommended that the Scrutiny Committee notes the report. It is recommended that Executive approves, for onward submission to Council, the: • Prudential Indicators forecast for 3 years • Treasury Management Strategy for 2012/13 • Minimum Revenue Provision Policy for 2012/13 • Schemes of Delegation and Responsibility attached at Appendices 2 and 6 It is recommended that Council approves the report.

	Reasons for the Decision: It is a requirement of the CIPFA Code that the Council receives an annual treasury management strategy report.

IMPLICATIONS:	
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	Treasury Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
Statement by Executive Director of Resources:	There are no additional resource implications.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Scrutiny Committee (Internal)

TRACKING/PROCESS **DIRECTOR:** Mike Owen

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Yes	Yes	N/a	N/a
Scrutiny Committee	Committee	Council	
Internal	Executive	**Yes**	

1.0 INTRODUCTION

1.1 Background

1.1.1 Treasury management is defined as "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.2 Statutory requirements

1.2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.2.3 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.3 CIPFA requirements

1.3.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 24th February 2010.

Code of Practice Requirements	How we comply
1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.	Our Treasury Management Policy Statement is set out in Appendix 5 of this report.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.	We use the Treasury Management Practices as advised by Sector, our Treasury management consultants.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.	This report together with the mid year report and annual report fulfils this requirement.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.	The Council's delegation of responsibilities for treasury management is set out in Appendix 2 of this report.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.	For this Council the delegated body is Internal Scrutiny Committee.

1.4 Treasury Management Strategy for 2012/13

1.4.1 The suggested strategy for 2012/13 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector.

The Strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and treasury indicators
- the current treasury position
- prospects for interest rates
- the borrowing strategy
- the borrowing requirement
- debt rescheduling
- the investment strategy
- the minimum revenue provision strategy

1.5 Balanced Budget Requirement

1.5.1 It is 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: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects,

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Note: Within the Budget Report, the Council is proposing a Capital Programme which places no reliance on borrowing; only schemes which are fully funded (i.e. external grant) are being put forward.

2.0 TREASURY LIMITS FOR 2012/13 to 2014/15

2.1 It is a statutory duty under Section 3 of the Act 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 "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Council must have regard to the Prudential Code when setting the 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 and council rent levels is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing 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.

3.0 PRUDENTIAL AND TREASURY INDICATORS FOR 2012/13 – 2014/15

3.1 The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

3.2 A key issue facing the Council is the impact of Housing Revenue Account (HRA) reform. This will essentially end the impact of the housing subsidy system and will see the HRA taking on new debt (£78.253m), retaining rents collected locally, and operating within a sustainable 30-year Business Plan. The Executive approved revised Treasury indicators on 8th February 2012 to facilitate this process.

3.3 The following prudential indicators, in the table below, are relevant for the purposes of setting an integrated treasury management strategy and they reflect the impact of HRA reform.

PRUDENTIAL INDICATOR	**2011/12**	**2012/13**	**2013/14**	**2014/15**	
(1). AFFORDABILITY PRUDENTIAL INDICATORS	**Probable Outturn**	**Estimate**	**Estimate**	**Estimate**	
Capital Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	
Non – HRA	25,513	7,336	2,654	1,686	
HRA existing expenditure	4,864	7,370	0	0	
HRA reform settlement	79,258	0	0	0	
TOTAL	**109,635**	**14,706**	**2,654**	**1,686**	1
Capital Financing Requirement (CFR)	**£'000**	**£'000**	**£'000**	**£'000**	
Non – HRA	135,067	133,705	127,398	121,344	
HRA existing CFR	40,887	40,887	40,887	40,887	
HRA reform settlement	79,258	79,258	79,258	79,258	
TOTAL	**255,212**	**253,850**	**247,543**	**241,489**	2
Affordable Borrowing Limit					
Estimate of incremental impact of capital investment decisions	**£**	**£**	**£**	**£**	
Notional Increase in council tax (band D, per annum)	1.17	1.44	0.00	0.00	3
Increase in housing rent per week	0.0	0.0	0.0	0.0	4
Ratio of financing costs to net revenue stream					
Non – HRA	2.56%	2.55%	2.49%	2.43%	5
HRA (applies only to housing authorities)	6.37%	6.25%	6.13%	6.01%	5
Net External Borrowing only to support the CFR in Medium Term		**£'000**			
Net External borrowing over medium term		217,014			
Total CFR over Medium Term		255,212			
Net External Borrowing < Total CFR		TRUE			6

TREASURY INDICATOR	**2011/12**	**2012/13**	**2013/14**	**2014/15**	

(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	Probable Outturn	Estimate	Estimate	Estimate	
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	
Borrowing	214,500	214,500	214,500	214,500	
Other long term liabilities	7,800	7,400	7,000	6,600	
HRA settlement	79,258	79,258	79,258	79,258	
TOTAL	301,558	301,158	300,758	300,358	7
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	
Borrowing	189,400	189,400	189,400	189,400	
Other long term liabilities	7,800	7,400	7,000	6,600	
HRA settlement	79,258	79,258	79,258	79,258	
TOTAL	276,458	276,058	275,658	275,258	7
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	140%	140%	140%	140%	8
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	-40%	-40%	-40%	-40%	8
Upper limit for total principal sums invested for over 364 days	**£'000**	**£'000**	**£'000**	**£'000**	
(per maturity date)	10,000	10,000	10,000	10,000	9

Maturity structure of new fixed rate borrowing during 2011/12	upper limit	lower limit
Under 12 months	40%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	50%	0%
10 years and above	90%	30%

3.4 In addition to the tabled prudential indicators, the Council is also required to formally adopt the CIPFA Code of Practice on Treasury Management.

3.5 Notes to the indicators:

1. Capital expenditure is derived from the Capital Programme forecast. Capital expenditure decreases over the 3 year forecast as further external funding is to be identified.

2. Capital Financing Requirement relates to all capital expenditure – i.e. it includes relevant capital expenditure incurred in previous years. The Capital financing requirement reflects the authority’s underlying need to borrow.

3. The finance costs related to the increases in capital expenditure impact upon Council tax. The costs over the three year forecast fall as the estimated capital expenditure in the second and third year is lower therefore finance costs fall as loan interest falls and investment balances stay constant. The incremental impact of capital investment decisions on Council tax is explained in further detail in the body of this report, paragraph 7 - Capital Borrowing Requirement.

4. There is no direct impact of capital expenditure on housing rents as the housing rent is set according to Government formula.

5. Both General Fund and HRA finance costs to net revenue streams remain stable throughout the 3 year forecast.

6. To ensure that borrowing is only for a capital purpose and therefore show that the authority is being prudent this indicator compares the level of borrowing and capital financing requirement (CFR) over the medium term. The level of borrowing will always be below the CFR.

7. The authorised limit and operational boundary are consistent with the authority's plans for capital expenditure and financing. The authorised limit is the maximum amount that the authority can borrow. There is headroom within this limit to borrow the following 3 years capital financing requirement.

8. The variable and fixed limits together look at the whole portfolio and will therefore together always show 100% exposure. Variable interest rate limit can be positive or negative as investments under 364 days are classed as variable and are credit balances which are offset against debit variable loans. The smaller the balance of investments, the more likely the variable limit will be positive as the variable loan debit balance will be higher than the credit investment balance offset against it.

9. Principal sums invested for periods longer than 364 days has been set at £10 million. The investment balance is estimated to be cash flow driven, however if the opportunity arises that surplus investment balances are available then advantage will be taken of favourable rates.

4.0 CURRENT TREASURY PORTFOLIO POSITION

4.1 Treasury Management is a very dynamic area of the Council's financial management and involves forecasting trends in the market and matching these to the Council's overall financial objectives, both short–term and long-term. To assist Members in agreeing a strategy for 2012/13 the Council's current treasury portfolio position (at nominal value) is detailed below:

	31-Mar-11			Forecast 31-Mar-12		
	Principal		Avg. Rate	Principal		Avg. Rate
	£000	£000		£000	£000	
Fixed rate funding						
PWLB Bury	93,109			83,109		
PWLB Airport	5,644			5,256		
Market Bury	34,000	132,753		39,000	127,365	
Variable rate funding						
PWLB Bury	0			0		
Market Bury	0	0		0	0	
Temporary Loans / Bonds	5,003	5,003		10,003	10,003	
Total Debt		**137,756**	**4.81%**		**137,368**	**4.75%**
Total Investments		**36,968**	**1.23%**		**25,000**	**1.30%**

4.2 The forecast accumulated capital financing requirement at the end of 2011/12 is £176.0m. The forecast borrowing at the end of 2010/11 is £137.4m meaning that the Authority is under borrowed by £38.6m.

4.3 The investment portfolio after the Capital Programme has been spent during 2011/12 is estimated to be around £25m. In preference to taking out long term borrowing, the Authority is taking temporary loans and running down investments to finance capital expenditure because investment returns are low at the present time. The estimated rate of interest on investments for 2011/12 is 1.30%.

4.4 **HRA reform**

4.4.1 The implications of HRA reform were reported to the Executive on 8 February and Members noted the requirement for Bury to take on new debt so that a payment in the order of £78.253m can be made to the Department for Communities and Local Government on the 28th March 2012.

4.4.2 This is **not** reflected in the table above as it is anticipated that the payment will be financed by a mix of loans and available cash resources, with the arrangement structured in a way that it will optimise the Council’s overall financial position, for both the HRA and the General Fund.

4.4.3 In addition to taking on additional debt, the reforms mean that HRA and General Fund debt can, from 1 April 2012, be managed separately. The Government has not prescribed any approach as to how this should be achieved although guidance has been issued by the Chartered Institute of Public Financing and Accountancy (CIPFA). This guidance proposes a one, two or three pool approach to managing debt from 1 April 2012 with CIPFA stating that whatever approach is adopted the following principles must be adhered to:

- There must be no detriment to the General Fund in the initial split of debt
- The approach adopted should be broadly equitable between the HRA and the GF
- Future charges to the HRA in relation to borrowing are not influenced by GF decisions, giving a greater degree of independence, certainty and control
- Cash resources (reserves and other cash backed balances e.g. provisions) which allow borrowing to be below the capital financing requirement (see Section 3 below) are properly identified between the HRA and General Fund

4.4.4 Officers are consulting with the Council's Treasury advisors about the most appropriate approach towards the issue of pooling

5.0 PROSPECTS FOR INTEREST RATES

5.1 The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	**Bank Rate**	**Money Rates**		**PWLB Borrowing Rates**		
		3 month	**1 year**	**5 year**	**25 year**	**50 year**
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60

Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

5.2 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.

5.3 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.

5.4 This challenging and uncertain economic outlook has a several key treasury management 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. 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 will incur a revenue loss between borrowing costs and investment returns.

6.0 BORROWING STRATEGY

6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing excluding the HRA reform settlement.

6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Assistant Director of Resources (s151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

6.3 The requirement for the HRA reform settlement to be made to the CLG on 28 March 2012 required specific approval from the Executive on 8th February 2012. A separate loan solely for this purpose is anticipated. The PWLB are providing loans at interest rates 0.85% lower than the usual PWLB interest rates solely for the settlement requirements. This provides a compelling reason to utilise this borrowing availability. The exact structure of debt to be drawn is curently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council. Whilst the debt can be drawn earlier than needed, this may incur a revenue cost, and will be considered when a review of the structure of actual prevailing borrowing and investment interest rates is undertaken nearer to the time.

6.4 Any decisions will be reported to the appropriate decision making body at the earliest available opportunity. It is anticipated that the Council will fund the HRA reform settlement by a mix of PWLB loans and internal cash resources.

6.5 Policy on borrowing in advance of need

6.5.1 The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

6.5.2 In determining whether borrowing will be undertaken in advance of need the Council will: -

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets, have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

7.0 BORROWING REQUIREMENT

7.1 Based on a current forecast for the capital financing requirement plus the replacement of existing debt, less the minimum revenue provision (MRP) and the voluntary revenue provision (VRP), the net borrowing requirement for the current year and the next three years is estimated to be as follows.

	2011/12 £'000 Estimate	**2012/13 £'000 Estimate**	**2013/14 £'000 Estimate**	**2014/15 £'000 Estimate**
New borrowing	78,253	0	0	0
Alternative financing	7,484	4,303	0	0
Replacement borrowing	0	7,500	14,000	10,809
Borrowing Requirement	**85,737**	**11,803**	**14,000**	**10,809**

7.2 New borrowing in 2011/12 results from the debt to be incurred to finance the HRA reform settlement. This will be financed by a mix of PWLB loans and internal cash resources.

7.3 Alternative financing is a combination of running down cash balances and investments and temporary borrowing.

7.4 The increase in the capital financing requirement (CFR) for 2010/11 was £7.484m and borrowing/funding for this amount would normally take place in 2011/12. The increase in the CFR for 2011/12 is estimated at £4.303m and borrowing/funding for this amount would normally take place in 2012/13. The plan is to use a combination of internal borrowing (i.e. running down cash balances/investments) and temporary borrowing to finance these items, and to only use more long term borrowing (1 to 10 years) if required by the Council's underlying cash flow needs.

7.5 The overall effect of the finance costs on the General Fund for the next three years is detailed in the Affordable Borrowing Limit prudential indicator. This ultimately shows the effect of the proposed capital investment decision on the council tax compared to a situation with the same level of capital investment as occurred in the previous year. Changes in the capital investment decision affects the movement in new borrowing for capital purposes, resulting in a change in the finance costs which impacts council tax.

	2012/13	**2013/14**	**2014/15**
Affordable Borrowing Limit	**Estimate**	**Estimate**	**Estimate**
Increase in Council tax	£1.44	£0.00	£0.00

7.6 The effect of increased finance costs relating to the HRA Reform Settlement does not impact on council tax as it only relates to Housing. However members are advised that the figures in the table may change as a result of the new HRA/General Fund pooling arrangements referred to in section 4.4.

7.7 The effect of increased finance costs on housing rents is zero as housing rents are determined by a government formula.

7.8 Borrowing may have to be undertaken pending the outcome of the because of equal pay settlements. Provision for potential revenue consequences has been included within the draft revenue budget.

8.0 DEBT RESCHEDULING

8.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

8.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

8.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

8.4 All rescheduling will be reported to the Council at the earliest meeting following completion.

9.0 ANNUAL INVESTMENT STRATEGY

9.1 Investment Policy

9.1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

9.1.2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Council recognises that the borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

9.1.3 The guidance primarily focuses on high security and investing with bodies with high credit ratings. However, this focus only deals with credit risk which could result in the loss of the principal sum invested.

9.1.4 However, this approach does not deal with market risk i.e. an adverse movement in interest rates which, with some investment products, could lead to a diminution of the maturity value below that of the original principal sum invested. There is for example, potential for this to occur with investments in pooled investments i.e. collective investment schemes where an investment of cash is translated into the purchase of units in the fund. The value of these units is NOT guaranteed to remain unchanged between the date of investment and the maturity date. However, pooled vehicles do use rigorous methods to control their risk exposure and so consequently, they do have high credit ratings. But higher rates of return can usually only be achieved by taking on greater exposure to risk.

9.1.5 Therefore the categories of investments listed below are split between Specified and Non-Specified investments dependent on the level of credit and market risk the authority believes is associated with the investment categories.

9.1.6 Specified investments are identified by the Guidance as requiring "minimal procedural formalities". Specified investments are therefore categorised of investment which are more risk averse.

9.1.7 The spirit of the guidance is that investment products which take on greater risk and therefore should be subject to greater scrutiny, should be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy and so should fall into the non specified category; this would apply regardless of whether they are under one year investments and have high credit ratings.

Specified Investments:

9.1.8 All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable. The table below details the different investment categories available.

Investment Category	**Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	N/A	In-house
Term deposits – other LAs	N/A	In-house
Term deposits – banks and building societies	Short-term F1, Long-term A-, Individual C- or BB+, Support 1,2,3 or equivalent	In-house
Fixed term Deposits with variable rate & variable maturities:-		
1. Callable Deposits	Short-term F1, Long-term A-, Individual C- or BB+, Support 1,2,3 or equivalent	In-house
Certificates of deposits issued by banks and building societies	Short-term F1, Long-term A-, Individual C- or BB+, Support 1,2,3 or equivalent	In-house buy & hold after advice from Sector Treasury Services
UK Government Gilts	AAA	In-house buy & hold after advice from Sector Treasury Services
Bonds issued by multilateral development banks	AAA	In-house buy & hold after advice from Sector Treasury Services
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house buy & hold after advice from Sector

		Treasury Services
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house buy & hold after advice from Sector Treasury Services
Treasury Bills	Govt-backed	In-house buy & hold after advice from Sector Treasury Services
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):		
Money Market Funds	AAA	In-house

Non-Specified Investments:

9.1.9 A maximum of 100% can be held in aggregate in non-specified investments during the year. Non-specified investments for this local authority are surplus funds

- placed with counterparties for less than one year but do not meet the high credit rating described in specified investments
- placed in investment structures or pooled investments that have a slightly higher level of risk
- that are invested for periods greater than one year

9.1.10 The limit for investments to be placed for more than one year is 20%. The table shows the limits given to the different investment categories:

Non-Specified Investments Less than 1 year				
	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – banks and building societies - with lower ratings than specified investments : any maturity not greater than one year	Short-term F2, Long-term A, Individual BB+, Support 1,2,3	In-house	100%	Not greater than 1 year
Fixed term Deposits with variable rate & variable maturities :-				
1. Range Trades	Short-term F1, Long-term A-, Individual BB+, Support 1,2,3 or equivalent	In-house	10%	Not greater than 1 year
2. Snowballs (investments with fixed and variable elements)	Short-term F1, Long-term A-, Individual BB+, Support 1,2,3 or equivalent	In-house	10%	Not greater than 1 year
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):-				
1. Enhanced cash funds	Short-term F1, Long-term A-,	In-house	10%	Not greater than 1 year
2. Short term funds	Short-term F1, Long-term A-,	In-house	10%	Not greater than 1 year
3. Bond funds	Short-term F1, Long-term A-,	In-house	10%	Not greater than 1 year
4. Gilt funds	Short-term F1, Long-term A-,	In-house	10%	Not greater than 1 year

Non-Specified Investments in excess of 1 year				
	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – other Las	N/A	In-house	10%	5 years
Term deposits – banks and building societies	Short-term F1, Long-term A-,	In-house	10%	5 years

	Individual BB+, Support 1,2,3			
Fixed term Deposits with variable rate & variable maturities :-				
1. Callable Deposits	Short-term F1, Long-term A-, Individual BB+, Support 1,2,3 or equivalent	In-house	10%	5 years
2. Range Trades	Short-term F1, Long-term A-, Individual BB+, Support 1,2,3 or equivalent	In-house	10%	5 years
3. Snowballs (investments with fixed and variable elements)	Short-term F1, Long-term A-, Individual BB+, Support 1,2,3 or equivalent	In-house	10%	5 years
Certificates of deposits issued by banks and building societies	Short-term F1, Long-term A-, Individual BB+, Support 1,2,3	Fund managers	10%	5 years
UK Government Gilts	AAA	Fund Managers	10%	5 years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	10%	5 years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA / government guaranteed	In-house on a 'buy-and-hold' basis. Also for use by fund managers	10%	5 years
Sovereign bond issues (i.e. other than the UK govt) with maturities in excess of 1 year	AAA	Fund Managers	10%	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):-				
1. Bond Funds	Short-term F1, Long-term A-	In-house	10%	5 years
2. Gilt Funds (UK Government Bonds)	Short-term F1, Long-term A-	In-house	10%	5 years

9.1.11 In addition to listing the Investment Categories that the Council can use overall, it is necessary to determine detailed limits for investment categories that are used on a daily basis for short term investments. This incorporates the high credit criteria detailed for specified investments and also the credit criteria detailed for non-specified investments.

9.1.12 The Council uses Fitch ratings to derive its criteria. Where a counter-party does not have a Fitch rating, the equivalent Moody's *or* Standard and Poor's rating will be used. All credit ratings will be monitored monthly. The Council is alerted to changes in Fitch ratings through its use of the Sector Creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. If a Counterparty / investment scheme meets the Council's minimum criteria, consideration will be given to its inclusion for investment purpose.

9.2 Creditworthiness policy

9.2.1 This Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last two years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

9.2.2 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

9.2.3 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands :-

- Purple 2 years

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

9.2.4 This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though use ratings from all three agencies, but by using a scoring system does not give undue preponderance to just one agency's ratings.

9.2.5 All credit ratings will be monitored daily and weekly**.** The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

9.2.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

9.3 Country limits

9.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) The list of countries that qualify using this credit criteria as at the date of this report are shown in appendix 4. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

9.4 Investment Strategy

9.4.1 **In-house funds***:* Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

9.4.2 **Interest rate outlook**: Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to remain unchanged until quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are as follows: -

- **2011/ 2012** 0.50%
- **2012/ 2013** 0.50%
- **2013/ 2014** 1.25%
- **2014/ 2015** 2.50%

There is downside risk to these forecasts if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

9.4.3 Investment returns are expected to remain low in the short / medium term. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.70%
2013/14	1.00%
2014/15	1.60%
2015/16	3.30%
2016/17	4.10%

9.5 Monitoring / Reporting Arrangements

9.5.1 Treasury Management activity is monitored on a monthly basis as part of the wider budgetary control framework.

9.5.2 Quarterly reports are produced for the Executive, Internal Scrutiny & Audit Committees.

9.5.3 A mid year review of the strategy / policy is undertaken and reported to the Executive.

9.5.4 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Outturn Report.

9.6 Policy on the use of external service providers

9.6.1 The Council uses Sector Treasury Services as its external treasury management advisers.

9.6.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

9.6.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

9.7 Scheme of delegation

Please see appendix 6.

9.8 Role of the section 151 officer

Please see appendix 7.

10.0 MINIMUM REVENUE PROVISION POLICY (MRP) for 2012/13

10.1 The concept of MRP was introduced in 1989 to prescribe the minimum amount which must be charged to the revenue account each year to meet credit liabilities (borrowing and leasing costs).

10.2 The Council will follow the same policy in 2012/13 as it did in 2011/12 Accordingly it is recommended that the:

- Regulatory method for calculating MRP be used for supported borrowing
- Asset Life method of calculating repayment provision be used for unsupported borrowing

10.3 It is to be noted that the above policy resulted in MRP savings of £120,000 in 2009/10, £51,000 in 2010/11, and is expected to generate further savings in 2011/12 and 2012/13.

10.4 It is recommended that there is no MRP applied to HRA debts.

11.0 EQUALITY & DIVERSITY

11.1 An initial input assessment has been undertaken and it is concluded that there will be no negative impact from this report.

COUNCILLOR JOHN SMITH
DEPUTY LEADER & EXECUTIVE MEMBER FOR FINANCE

For further information on the contents of this report, please contact:
Mike Owen, Executive Director of Resources
Tel: 0161 253 5002
e-mail: M.A.Owen@bury.gov.uk
Steve Kenyon, Assistant Director of Resources (Finance and Efficiency)
Tel: 0161 253 5237
e-mail: s.kenyon@bury.gov.uk

APPENDIX 1 - Interest Rate Forecast 2011/2015

Sector's Interest Rate View															
	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 Month LIBID	0.87%	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 Month LIBID	1.16%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 Month LIBID	1.65%	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
5yr PWLB Rate	2.25%	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	3.33%	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	4.24%	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	4.26%	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
Bank Rate															
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	2.25%	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	2.25%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.25%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	3.33%	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	3.33%	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	3.33%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	4.24%	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	4.24%	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	4.24%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	4.26%	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	4.26%	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	4.26%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

DELEGATION AND RESPONSIBILITY

The following personnel are involved on a regular basis in Treasury Management: -

Executive Director of Resources (Mike Owen)	Overall supervision of Treasury Management function and cashflow. Regular reviews of Treasury Management Strategy.
Assistant Director of Resources (Steve Kenyon)	Section 151 Officer Deputise for the Executive Director of Resources
Head of Financial Management (Andrew Baldwin)	Deputise for the Executive Director of Resources. Direct supervision of Treasury Management function. Assist in reviews of Treasury Management Strategy and monitor performance.
Group Accountant (Treasury Management) (Peter Harrington)	Manage and undertake day to day Treasury Management Activities in accordance with Treasury Strategy and Policy Statement.
Senior Accountancy Assistant (Stephen Blake)	Deputise for Group Accountant in his duties as required.
Senior Accountant – Capital & External Funding (Angela Sozansky)	Deputise for Group Accountant in his duties as required
Senior Accountancy Assistant (Chris Peel)	Standby for allocation of short term business via brokers
Accountancy Assistant (Linda Hughes)	Standby for allocation of short term business via brokers.

Please note that the Council's signatories for treasury management

transactions are :-

Mike Owen, Executive Director of Resources

Steve Kenyon, Assistant Director of Resources (s151 Officer)

Andrew Baldwin, Head of Financial Management

Lewis Magid, Principal Accountant

APPENDIX 3 ECONOMIC BACKGROUND (Market View)

3.1. Global economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers solid optimistim for the outlook for 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either "orderly" or "disorderly". Most commentators currently view that it is now inevitable that Greece will have to exit the Eurozone in 2012.

There is also growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and likely difficulties in implementing the required level of fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

The US economy has encouraged with some positive news around the start of 2012 but any improvement in the weak rate of growth is likely to only generate slow progress in reducing the high level of unemployment which is acting as such a dampener on the economy. With Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started "Operation Twist" in an effort to re-ignite the rate of growth in the economy. However, high levels of consumer indebtedness, a moribund housing market together with stubbornly high unemployment, will continue to weigh heavily on consumer confidence and so on the abiltity to generate a healthy and consistent rate of economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite a major thrust to tighten monetary policy during 2011 to cool inflationary pressures which are now subsiding. However, some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

3.2 UK economy (Market View)

The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has been weak and concerns at the risk of a technical recession (two quarters of negative growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forcecasts for 2012 and beyond have been revised lower on a near quarterly basis. With concerns of a potential return to recession, the Bank of England embarked on a second round of Quantitive Easing to stimulate economic activity. It appears very likely that there will be another expansion of quantitative easing in quarter 1 2012 in order to stimulate economic growth.

Unemployment. With the impact of the Government's austerity strategy resulting in steadily increasing unemployment during 2011, there are limited prospects for any improvement in 2012 given the prospects for weak growth.

Inflation and Bank Rate. For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation starting quarter 1 of 2012 at 4.8%, having peaked at 5.2% in September 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

AAA rating. The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy for deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and, with the safe haven status from Eurozone debt also drawing in external investment, the pressure on rates has been down, and looks set to remain so for some time.

3.3 Sector's forward view

Economic forecasting remains troublesome with so many extermal influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that increasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

APPENDIX 4 Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

AA+

- Belgium
- Hong Kong

AA

- Japan

AA-

- Saudi Arabia

APPENDIX 5 TREASURY MANAGEMENT POLICY STATEMENT

1. This organisation defines its treasury management activities as: "The management of the authority'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. This organisation 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 organisation.

3. This organisation 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 to employing suitable comprehensive performance measurement techniques, within the context of effective risk management."

APPENDIX 6 Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Boards/committees/Council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 7 The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.