

# AGENDA



For a meeting of the
<b>COUNCIL</b>
to be held on
<b>THURSDAY, 8 DECEMBER 2011</b>
at
<b>2.00 PM</b>
in the
<b>COUNCIL CHAMBER, COUNCIL OFFICES, ST. PETER'S HILL, GRANTHAM</b>
<b>Beverly Agass, Chief Executive</b>

Members of the Council are invited to attend the above meeting to consider the items of business listed below.

**Before the start of the meeting, from 13:40, children from Isaac Newton School (Grantham) will provide entertainment. Please take your seats by 13:35.**

**1. PUBLIC OPEN FORUM**

The public open forum will commence at **2.00 p.m.** The formal business of the Council will commence at **2.30 p.m.** or whenever the public open forum ends, if earlier.

**2. APOLOGIES FOR ABSENCE**

**3. DECLARATIONS OF INTEREST**

Members are asked to declare any interests in matters for consideration at the meeting.

**4. MINUTES OF THE MEETING HELD ON 20 OCTOBER 2011**

*(Enclosure)*

**5. COMMUNICATIONS (INCLUDING CHAIRMAN'S ANNOUNCEMENTS)**

*(Enclosure)*

**6. LINCOLNSHIRE FIRE AND RESCUE**

Nick Borill from Lincolnshire Fire and Rescue will give a presentation about Lincolnshire Fire and Rescue, its responsibilities and community safety.

**7. TREASURY MANAGEMENT STRATEGY 2011-12 UPDATE**

Report number HOR183 by the Head of Finance. *(Enclosure)*

**8. QUESTIONS WITHOUT DISCUSSION**

To note the list of questions asked under Council procedure rule 11.1 as circulated at the start of the meeting and their reference to the relevant Policy Development Group.

**PLEASE NOTE:**

The deadline for notices of motion for the next Council meeting on Thursday 1 March 2012 is 2pm on Friday 17 February 2012.

# MINUTES

**COUNCIL**  
**THURSDAY, 20 OCTOBER 2011**  
**2.00 PM**



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## PRESENT

Councillor Michael Cook Chairman

Councillor Bob Adams  
Councillor Mark Ashberry  
Councillor Ray Auger  
Councillor Harrish Bisnauthsing  
Councillor Pam Bosworth  
Councillor Terl Bryant  
Councillor Paul Carpenter  
Councillor Mrs Frances Cartwright  
Councillor Ibis Channell  
Councillor George Chivers  
Councillor Kelham Cooke  
Councillor Paul Cosham  
Councillor Alan Davidson  
Councillor Phil Dilks  
Councillor Breda Griffin  
Councillor Vic Kerr  
Councillor Michael King  
Councillor Charmaine Morgan  
Councillor David Nalson  
Councillor Mrs. Linda Neal  
Councillor John Nicholson  
Councillor Helen Powell  
Councillor Nick Robins  
Councillor Graddon Rowlands

Councillor Bob Russell  
Councillor Bob Sampson  
Councillor Bob Sandall  
Councillor Susan Sandall  
Councillor Trevor Scott  
Councillor Ian Selby  
Councillor Rob Shorrocks  
Councillor Jacky Smith  
Councillor John Smith  
Councillor Mrs Judy Smith  
Councillor Peter Stephens  
Councillor Judy Stevens  
Councillor Adam Stokes  
Councillor Ian Stokes  
Councillor Brenda A Sumner  
Councillor Mrs Jean Taylor  
Councillor Mike Taylor  
Councillor Jeff Thompson  
Councillor Frank Turner  
Councillor Bruce Wells  
Councillor Martin Wilkins  
Councillor Paul Wood  
Councillor Rosemary H Woolley  
Councillor Raymond Wootten

## OFFICERS

Chief Executive (Beverly Agass)  
Strategic Directors (Daren Turner, Ian Yates, Tracey Blackwell)  
Head of Legal and Democratic Service (Lucy Youles)

## OFFICERS

Head of Finance (Richard Wyles)  
Head of Assets (Paul Stokes)  
Principal Democracy Officer (Jo Toomey)

Before the meeting was officially opened, the Chairman drew Members' attention to the lone working policy that had been circulated.

The Chairman announced that the Council had been awarded 'Achieving Level' against the equality framework for local government. He congratulated the staff involved in the assessment and thanked the Acting Head of Housing and Neighbourhoods, who led the project.

Finally, the Chairman advised members of the Council that as the vice-chairman had sent an apology for absence, Councillor Adams had offered to assist him by taking names.

### **37. PUBLIC OPEN FORUM**

Two questions were received from Mrs Patrick of Stamford. A transcript of the questions and their answers is below:

Mrs Patrick: Good afternoon Chairman. Good afternoon Mrs Neal and Councillors. My question is to Mrs Neal. South Kesteven District Council are proactive in promoting health and safety. Why then does it break its own rules?

Cllr Mrs Neal: Thank you very much Mr Chairman. Obviously the Council takes health and safety very seriously and obviously the rules are there for a reason. If I thought that any rules had been broken I would be very concerned.

Chairman: Thank you. Could you enlighten us...

Mrs Patrick: Chairman, may I ask your indulgence that I, before I ask the [unknown], that I can also give the answer to the question.

Chairman: You may indeed.

Mrs Patrick: Thank you. Mrs Neal, for two years, I've been telling Councillors in this chamber of a danger attached to the building and I would ask you and the Chief Executive, the chief legal and the chair to come with me at the interval to see this danger. An accident is going to happen and it could be severe and it could cause a death as well and that's why I'm so concerned and the problem is the back steps leading from the building to the car park. There's no safety where those rails are concerned and it's a disgrace, absolutely. If they do it on motorways to stop people rolling off or falling off and people with bad eyesight cannot see the edge of the steps and you do need another handrail on the other side. And it is health and safety and I'm more than with

you on that but I've nearly fallen off those steps two or three times and there is no grab rail to save you from falling and the top height is six-feet and more when you go through the door. Thank you.

Chairman: For clarification, those are the steps at the back door are they?

Mrs Patrick: Yes.

Chairman: Right. Thank you very much, thank you. Now it's not the public access you mean, it's the private access for the councillors, members at the back door to the car park.

Mrs Patrick: But it's also the safety of the staff and anybody that uses them.

Chairman: We'll inspect the steps at a later date and report back to you and give you the answer to that one. And I understand there's a second question.

Mrs Patrick: My second question is to Mr Carpenter. I have the photographs of all councillors from SK Today 'meet your councillors'. How?

Cllr Carpenter: Thank you, Mrs Patrick. The first thing I'd like to say is proof indeed that people read SK Today. Thank you for that. And I have a copy here which you're referring to, and the information you have is the e-mail address only. That is because that was the only sector of the information that we were confident in at the time of this publication because we hadn't yet collated all the individual preferences for telephone communication. That has been addressed; I'll come on to that later. I agree with you it probably should not have said "meet your councillor", it was more the intention that 'here are your councillors and the Ward which they represent'. Obviously we are prepared, as always, and all our councillors are, prepared to be contactable, which is the main thrust of being a Councillor. If you go to the customer service centres there should be a display on the wall giving you full information and the website contains the same but I will quite happily supply you with any information you need on that.

Mrs Patrick: Mr Carpenter, everybody is not on the computer, everybody is not computer literate and if I wanted to contact any councillor it means I've got to ring Grantham or one of those centres and a second phone

call. Everybody can't afford second phone calls. The information for the public should be there like you've done in previous years and that was fine and wonderful. But it means another expense to the public and out of their own purses and the public purses. Thank you very much.

Cllr Carpenter: Do you want a response to that, Mrs Patrick?

Mrs Patrick: Yes, please.

Cllr Carpenter: You'll see here the new version [of SK Today], which now contains everyone's preferred telephone number, which as I did explain, probably in a private conversation some time earlier, that whether you put a list in SK Today or you don't put the list in SK Today the cost is the same, so there will be no additional cost to the public by having that information in another version. The version that you held up there, the little one, that didn't come out until some time later when we got guaranteed, accurate information. I think it would be rather silly to put information in that we thought was correct, and subsequently found out that it wasn't, would make us look even more foolish, so the preference on the SK Today edition was to have information that we knew was correct because we had supplied it. Okay? Thank you.

The public open forum concluded at 14:12.

**38. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Bevan, Broughton, Craft, Higgs, Howard, Mrs Kaberry-Brown, Jock Kerr and Parkin.

**39. DECLARATIONS OF INTEREST**

Councillor Adam Stokes declared a personal interest in agenda item 7 (Civilian Parking Enforcement), because he was a member of Lincolnshire County Council.

Councillor Wootten declared a personal interest in agenda item 7 because he was a member of Lincolnshire County Council.

**40. MINUTES OF THE MEETING HELD ON 8 SEPTEMBER 2011**

Subject to the following amendments, the minutes from the meeting held on 8 September 2011 were proposed, seconded and agreed as a correct record:

- Page 3, minute number 32: Amend "He highlighted that the availability of broadband could inhibit economic growth" to "He highlighted that an absence of broadband could inhibit economic

- growth".
- Page 5, minute number 33: Add Councillor Judy Stevens to the list of Councillors who did not re-enter the meeting after the adjournment, having declared a personal and prejudicial interest.
- Page 8, minute number 34: Amend "In speaking against the motion, concern was expressed..." to "One Councillor, speaking against the motion, expressed concern..."

In accordance with Council Procedure Rule 16.3(ii)(b), it was proposed and seconded that, as the electronic voting system was out of commission, the vote should be taken by a show of hands. This was agreed by the majority of Councillors present and the minutes were approved.

*(Voting on subsequent minutes was taken using the electronic voting system)*

#### **41. COMMUNICATIONS (INCLUDING CHAIRMAN'S ANNOUNCEMENTS)**

A list of the Chairman's engagements was circulated with the agenda; Members noted this.

#### **42. COUNCIL'S VISION AND PRIORITIES**

##### ***Decision:***

***The Council approves the refreshed vision, values and priorities for South Kesteven for 2011-15 and beyond to 2021 as presented in report number CEX111.***

The Chief Executive introduced report number CEX111; since the Council last agreed its vision and priorities, changes had taken place nationally that needed reflecting locally. A number of minor amendments were reported to correct typographical errors and Councillors were also advised that under the Localism Bill, the withdrawal of lifetime tenancy was discretionary.

In proposing the recommendations in the report, the Leader said Councillors' feedback from a briefing session was positive. She explained that a considerable amount of consultation with partners and communities had led to the development of the vision and priorities. The proposal was seconded.

*14:23 Councillor Miss Channell entered the meeting*

Members broadly supported the report and the proposed new vision and priorities. Several Councillors made comments about housing. Referring to changes to the draft Localism Bill, several Councillors expressed their support for the 'tenancy for life' principle and urged that within its discretion, the Council retain that policy. It was suggested that operating with two systems (one for existing tenants and one for new tenants) would be unnecessarily complicated.

In responding to a question on the current 'Good for Business' priority, the

Chief Executive confirmed that the shop front scheme was being rolled out in all four of the towns. The pilot in Grantham, run in conjunction with the market place redevelopment, received 22 expressions of interest from local businesses.

The Chief Executive explained that the proposed priorities before Council was an evolution from its existing priorities; the new proposals were outward looking. The new priorities were based on the district's profile and feedback from key stakeholders. Future budgets should demonstrate the links between expenditure and the Council's priorities.

Applications for housing development were coming forward through the Development Control Committee and she was looking forward to seeing the outcomes of the new priorities.

Councillors expressed positive support for the focus on and facilitation of culture, leisure and tourism. Members particularly felt that the Council should capitalise on the 2012 Olympics and the districts proximity to Loughborough, a national sport centre.

Speaking on the motion, several Councillors expressed the importance of including young people. Concern was expressed that young people leave the area to study, then subsequently find employment outside the district.

Addendums to the report were proposed under Council Procedure Rule 13(xviii):

- Add to 8.1 (Grow the Economy): "To work with our further education partners to develop a higher education in the south of the county." [Addendum 1]
- Add to 8.3 (Promote leisure, arts and culture): " Develop and promote sports, including the development of a sports strategy for the district with our partners." [Addendum 2]

These were seconded. The Chairman agreed that the Council would vote on whether to include each addendum before considering the motion as proposed by the Leader of the Council.

One Councillor talked about the importance of the values behind the vision and priorities and expressed concern about promoting leisure without guaranteeing provision of leisure centres.

Two further addendums were proposed and seconded:

- Amend the second bullet point under paragraph 10 to read: "we take decisions which are open and accountable". [Addendum 3]
- Amend bullet point 4 under 8.3 to read: "maintain wide ranging leisure opportunities and leisure centres". [Addendum 4]

In response, it was suggested that by approving the proposed vision and

priorities, the Council would become the enabler, providing the environment in which development would be realised, without committing to how.

One Member felt that the Council should be more proactive in its approach, not just creating the environment but actively encouraging businesses and employers to come into the district. It was noted that the proposed vision and priorities acknowledged the need to improve the communications infrastructure, which would help attract businesses.

Concern was raised that sufficient affordable housing was needed and that the Council should look at providing additional social housing, via housing associations and additional council housing.

The Chief Executive explained that if approved action plans would be developed that could incorporate some of the specific points raised within the meeting.

The Leader was invited to sum up on the motion. In so doing, she responded to comments made during the debate. The draft Localism Bill was still changing regularly, so there was no clear indication about whether changes to tenancies for life would remain discretionary. However, the Bill did include potential options that would allow the Council to expand its housing offer. The action plan would comprise activities that met the priorities that the key stakeholders said were important to them. The report was amended to reflect, under 8.2, that the clean and attractive street scene should apply to urban and rural streets.

The addendums were put to the vote in turn; on each occasion the vote was lost.

*The following councillors requested in accordance with Council Procedure Rule 16.5, that their votes in favour of addendums 3 and 4 were recorded: Councillors Dilks, Davidson, Wells, Selby, Morgan, Shorrocks, Channell, Ashberry, Judy Stevens, Powell and Wood.*

The recommendations, as written in report CEX111 were put to the vote and carried.

#### **43. CIVILIAN PARKING ENFORCEMENT**

##### ***Decision:***

***1) The Council resolves to undertake the implementation of Civilian Parking Enforcement for District Council owned car parks within the administrative boundary of South Kesteven District subject to any required consultation, where Lincolnshire County Council will be responsible for on-street Civilian Parking Enforcement throughout Lincolnshire.***

***2) The Council resolves to authorise Lincolnshire County***

***Council's application to the Department for Transport for Civilian Parking Enforcement powers on behalf of this authority.***

- 3) The Council resolves to join: "The Joint Committee of England and Wales for the Civilian Enforcement of Parking and Traffic Regulations Outside London' in accordance with the requirements of the Traffic Penalty Tribunal.***
- 4) That Members will make nominations for appointment as the Member representative and a substitute member to the Joint Committee***
- 5) That Members authorise the setting of the level of differential penalty charge at Band 2 as stated in STATUTORY INSTRUMENTS 2007 No. 3487, Road Traffic, England. The Civil Enforcement of Parking Contraventions (Guidelines on Levels of charges) (England) Order 2007 use the band 2 PCN level, discounted by 50% for payment within 14 days, and incremented by 50% for payment after the issue of a Charge Certificate.***
- 6) That Members give delegated authority to the Strategic Director (Community Focus) regarding decisions on the operating model relating to Civilian Parking Enforcement in consultation with the relevant Portfolio Holder.***

The Economic Development Portfolio Holder proposed the recommendations in report number AFM0219, subject to adding "in consultation with the relevant portfolio holder" to recommendation (f). The report did not include residents parking; proposals regarding this would follow. This was seconded.

Several Members expressed concerns that civilian parking enforcement would not be introduced in conjunction with arrangements for residents' parking. Stamford was cited specifically because of the large number of residents living in the town centre. This was particularly highlighted in the context of the vision and priorities that had been approved.

It was clarified that the County Council had recently consulted on its overall car parking policy, which incorporated residents' parking. The issue of civilian parking enforcement for submission to the Department for Transport was separate from this.

The Portfolio Holder clarified that the working group appointments referred to in recommendation (d), would be made at a future meeting.

Concern was expressed that the change should not disadvantage the district council. It was noted that better enforcement could see increased usage of district council car parks. New arrangements should also increase

enforcement of inappropriate parking, which was the responsibility of Lincolnshire Police. One Councillor commented that enforcement officers should share the same terms and conditions as SKDC personnel.

The motion was put to the vote and carried.

*15:32-15:50 The meeting adjourned*

#### **44. SCRUTINY COMMITTEE ANNUAL REPORT - 2010/11**

The Vice-Chairman of the Scrutiny Committee presented report number LDS043, the Scrutiny Committee's annual report for 2010/11, for noting. In doing so, she paid tribute to the Committee's former Chairman, the late Councillor Joynson and his work. The report was noted.

#### **45. FINANCIAL REGULATIONS**

***Decision:***

***Council approves the revised set of Financial Regulations, the revised delegated limits relating to the Scheme of Virement and updating of delegated responsibility and authority limits for other key areas of expenditure.***

The Chairman of the Governance and Audit Committee moved the recommendation in report number HOF173 on the review of the Council's financial regulations. The proposition was seconded, put to the vote and carried.

#### **46. CONTRACT PROCEDURE RULES**

***Decision:***

***1) The Council approves the updated Contract and Procurement Procedure Rules appended to this report subject to the amendment to page 22 (13.3.4), to read: "Paper tenders which are opened must be date stamped and signed by the two officers and Council Member at the time of opening on the page containing the overall contract value, alternatively on the pages containing the price information, where no overall value is quoted"***

***2) The Council authorises the replacement of the existing Contract Procedure Rules with the updated Contract and Procurement Procedure Rules as approved in the Constitution.***

***NB Procurement processes in progress would continue under old procurement rules.***

The Chairman of the Governance and Audit Committee presented report number FIN172 on updating the Contract and Procurement Procedure Rules. He moved the recommendation with an amendment to page 22 of the rules (13.3.4) so it read: "Paper tenders which are opened must be date stamped and signed by the two officers and Council Member at the time of opening on the page containing the overall contract value,

alternatively on the pages containing the price information, where no overall value is quoted". This was seconded.

Discussion ensued about the role of Procurement Lincolnshire and collaborative working. The Council delegated the procurement function to Procurement Lincolnshire, for which it paid an annual contribution. Several Councillors expressed concerns about scrutiny mechanisms for the organisation and whether it delivered value for money. The District Council's Scrutiny Committee was already undertaking work to consider these issues.

In response to a question, the Head of Finance clarified that if the new rules were approved, any procurement processes already underway would continue under current arrangements. Any new procurement exercises would come under the new rules.

This motion was put to the vote and carried.

#### **47. AMENDMENT TO THE CONSTITUTION**

##### ***Decision:***

***That page 141, rule 24.7 (i) of the Constitution be amended to read "one working day prior to the meeting" and the reference to 24 hours prior to the meeting be deleted.***

The Chairman of the Constitution Committee moved the recommendation in report number LDS044, that the Constitution be amended to require members of the public wishing to speak at the Development Control Committee give one-working day notice, not 24-hours. The proposed amendment was designed to ensure sufficient notice was given when bank holidays fell directly before the meeting. The proposition was seconded.

An amendment was proposed and seconded that the following words be added to the original motion: "and the Constitution Committee be asked to review the current requirement under Rule 10.1/10.2 of residents to give "at least 3 working days notice" of any question or intention to speak". The proposal was made so that the wording was consistent across different meetings. On being put to the vote, the amendment was lost. The original motion was put to the vote and carried.

#### **48. QUESTIONS WITHOUT DISCUSSION**

Two questions had been received and referred to the relevant policy development group for a response.

##### **Question 1**

To: Councillor Linda Neal, Leader of the Council

From: Councillor Charmaine Morgan

In response to concerns received over the potential risks to local heritage and community assets please provide the number and location of Conservation areas; Listed Buildings; Tree Preservation Orders and Allotments – both existing and planned, within South Kesteven District Council.

Does the council believe that current protection is adequate?

**Referred to the Communities Policy Development Group**

**Question 2**

To: Councillor Linda Neal, Leader of the Council

From: Councillor Charmaine Morgan

Significant changes to secure tenancy are proposed under the Government's Localism Bill including the restriction of security of tenure for only 2 years for council tenants. Current proposals could impact on both existing and future council tenants, with consequences for private tenants/landlords and neighbouring owner occupiers, as well. There will also be likely increased degradation of council assets.

Given it is up to individual councils to choose whether, and how, to adopt this part of the Bill please advise when this matter will be debated in Full Council?

**Referred to the Communities PDG**

**49. CLOSE OF MEETING**

The meeting was closed at 16:22.

# Agenda Item 5

## **Chairman's Civic Events** **20.10.11 to 8.12.11**

<b>Date</b>	<b>Ref</b>	<b>Organisation and Event</b>	<b>Location</b>	<b>Chauff</b>
23.10.11	MC19A	Grantham Lions Club Annual Variety Concert	Walton Girls High School, Kitty Briggs Lane, Grantham	
29.10.11	MC32	Relaunch Grantham Market Place Opening		
3.11.11	MC36	Charity Quiz Chairman's Own	King's Hotel	
6.11.11	MC33	Market Deeping Town Council Opening Ceremony	Remembrance Gardens, Market Deeping	
10.11.11	MC01	Community Lincs Presentation Evening	Washingborough Community Centre	Yes
11.11.11	MC41	Mayor's Parlour 2 Mins Silence Ceremony	St. Peter's Hill	
11.11.11	MC38	Grantham Civic Society Unveiling Plaque for Lance Corp. Walter Parker (VC)	Agnes Street, Grantham	
12.11.11	MC35	Grantham Choral Society A Night at the Opera	Christchurch, Finkin Street	
13.11.11	MC37	Stamford Town Council Remembrance Day Service	Browne's Hospital, Broad Street, Stamford	Yes
13.11.11	VC15	Remembrance Sunday, Royal British Legion	St. Wulfram's Church, Grantham.	
17.11.11	MC27	Mayor's Parlour Grantham Barron Knights	Guildhall Arts Centre	
17.11.11	VC13	Mayor's Parlour Grantham Barron Knights	Guildhall Arts Centre	
19.11.11	MC31	Tree Planting Ceremony	Dysart Park	
19.11.11	MC34	Lincolnshire Music Service String Celebration	Meres Leisure Centre Grantham	
21.11.11	MC43	10 <sup>th</sup> St. Mary's Scout Group 10 <sup>th</sup> Group Birthday Party	St. Mary's Catholic Church, Barrowby Road, Grantham	
25.11.11	MC45	"Diamond Grove" Tree Planting Ceremony	Elizabeth Park Grantham	
25.11.11	MC39	North Kesteven District Council Evening of Music	North Kesteven District Council Civic Suite.	Yes
26.11.11	MC40	Wyndham Park Forum Tree Planting Ceremony	Wyndham Park	
27.11.11	MC46	Grantham Business Club Presentation of Prizes at Christmas Market	George Centre, Grantham	
29.11.11	MC44	Prince and Princess of Wales Royal Visit	Cholmeley Arms, Burton Coggles	Yes
3.12.11	MC42	Courtney Finn, Civic Society Santa Fun Run,	Around Grantham Town	

## REPORT TO COUNCIL

**REPORT OF: HEAD OF FINANCE**

**REPORT NO: HOF 183**

**DATE: 8<sup>TH</sup> December 2011**

<b>TITLE:</b>	<b>Revision of the Treasury Management Strategy 2011/12</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Policy Framework	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Mike Taylor Resources and Assets Portfolio Holder	
<b>CONTACT OFFICER:</b>	Richard Wyles, Head of Finance 01476 406210 Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ASSESSMENT:</b>	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
<b>Equality and Diversity</b>	N/A	No
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	HOF148 – Budget Council , HOF174 – Treasury Management Mid-year review, HOF177 – Treasury Management Strategy Review (Governance and Audit)	

### 1. RECOMMENDATION

Council is asked to approve:

- The amendments to the 2011/12 Treasury Management Strategy as identified in the report.
- Delegated authority to the Strategic Director – Corporate Focus (s151 officer) and the Resources Portfolio Holder to authorise the most suitable and financial advantageous method of borrowing to finance the HRA self-financing payment.

### 2. PURPOSE OF THE REPORT

**Treasury Management** is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. In line with the Code the Council

has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.

Additionally, under Part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for Capital Finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2011/12 approved by Council on 3<sup>rd</sup> March 2011.

In addition to this the Councils borrowing position is expected to change significantly in March 2012 as the Council will be required to make a one off payment to the CLG to remove the HRA from the current housing subsidy system. Whilst the legislative framework is not yet been approved it is important the Council ensures it has the appropriate local arrangements in place before well before the payment is required on the 28<sup>th</sup> March 2012.

Following the recent uncertainty in the investment markets a number of the rating agencies have reviewed their ratings of Counterparties and coupled with the Council having adopted an overly risk adverse approach to manage its investments this has led to a very restrictive management of the Councils investments. It is therefore seeking to update its current Investment Strategy for 2011/12.

### **3. DETAILS OF REPORT**

#### HRA Self-Financing

The management of council housing is accounted for within a separate ring-fenced account - the Housing Revenue Account (HRA). The HRA effectively operates as a single national account. Key to the HRA is the subsidy system through which the Government is able to re-direct what it calculates to be excess resources in certain areas of the country to help subsidise the lack of resources in others. In short, authorities may either receive subsidy, where their costs are deemed to exceed their income, or they may be required to make a payment to the Exchequer ('negative subsidy') where their income is deemed to exceed their costs. Approximately three quarters of the 171 English authorities within the HRA are now in negative subsidy including South Kesteven, with its anticipated payment to Government in 2011/12 amounting to £7.8m, this set against an estimated total rental income of £21.2m.

In recent years there have been calls for the system to be reformed, particularly in view of its perceived unfairness towards many authorities and their tenants who were paying significant sums to central Government and the fact that overall the national account was moving increasingly into surplus. The previous government had recognised the issue, and announced its intention to reform the system back in 2008. It conducted an initial consultation exercise in 2009 in which one option proposed was to completely dismantle the current system and allow each individual authority to become 'self-financing' (i.e. where they would keep all their income and not receive or pay any further subsidy amounts). However, the price to be paid for this would be that collectively councils would need to take on the national HRA debt, currently estimated at £21.4bn. A higher figure than this will be distributed, however, which will take into account other costs such as the funding of the Decent Homes backlog.

The Coalition Government decided to continue with the previous government's proposals, subject to some changes, with the necessary legislative measures for the replacement of the current system contained within the Localism Bill. In February 2011 it published *Implementing self-financing for council housing*, which set out the rationale, methodology and financial parameters for the introduction of HRA self-financing in England and confirmed that the new system will commence in April 2012. Linked to this publication was a modelling spreadsheet (produced by PriceWaterhouseCoopers) along with separately published guidance allowing authorities to begin preparing for self-financing using the indicative figures in the model.

Self-financing will mean that in future authorities will keep all their rental income but with the proviso that collectively they will have to take on the national HRA debt, with a proportion of this debt allocated to each individual council. Each authority will have its existing level of debt readjusted, according to the valuation of its council housing stock. All things being equal, the higher the valuation the greater will be the amount of debt that will be allocated.

### Business Model

Valuations will be based on stock numbers as at 1 April 2011 and assumed levels of income and need for expenditure over 30 years. Stock numbers will be adjusted where appropriate to account for demolitions that take place during 2011/12 and those planned for future years. The 30 year income/expenditure cashflow is then converted into a cash sum at net present value (NPV) using a 6.5% discount rate, the resultant figure representing the valuation. Rental income assumptions will be based on the Government's social rent policy, with Guideline rents set to converge with Formula rents by 2015/16, rents rising by RPI plus ½% each year, housing benefit limit rents still applying and an assumed 100% collection rate with a 2% void level. Service charges are excluded from the income calculation (these are excluded from the current subsidy system).

Authorities are to be required to model a 30-year Business Plan using real, as opposed to subsidy, levels of income and expenditure in order to demonstrate the viability of their self-financed HRA's. The interest rate at which the authority will be able to borrow in March 2012 is, at present, unknown, and rates are currently very volatile, therefore a range of scenarios has been modelled using a selection of rates. Other assumptions used in the modelling process include:

- Rent Income – national rent guidelines will continue to be applied.
- Other Income will increase in line with estimated inflation.
- Interest Receivable – the General Fund will continue to invest HRA reserves, and credit the HRA with interest at the average rate earned on investments overall.
- Supervision and Management and Revenue Repairs will increase in line with estimated inflation.
- Major Repairs and Improvements – expenditure will be in line with the requirement to maintain "Decent Homes", using stock condition survey data and other relevant information.

Other than the above, the Business Plan assumes no change in the level of service provided.

If the valuation is higher than the assumed HRA debt - known as the Subsidy Capital Financing Requirement (SCFR) - the authority's debt will be increased by the difference; if vice versa, the debt will be correspondingly reduced. In South Kesteven's case the model values the Council's housing stock at £136m while our SCFR is £14m. As the former is higher than the latter our debt settlement payment calculates as £136m - £14m = £122m.

Other aspects of the self-financing proposals include the continuation of the statutory ring-fencing of the HRA and the continued clawing back of 75% of Right-to-Buy sale receipts (at least over the 2010 Spending Review period) albeit that forecasted stock losses will be built into the valuation. Also, the Localism Bill contains powers for the Secretary of State to re-open the self-financing settlement at some time in the future although it has been stated that this will only be done in exceptional circumstances and where there has been a material change since the time of the settlement. An example cited would be a fundamental change to national rent policy.

The Secretary of State specific consent required by an authority for it to be able to dispose of vacant housing assets at market value will be removed, and there will be greater freedoms for authorities to dispose at less than market value. Authorities will be allowed to retain 100% of receipts for sales of empty dwellings or land providing they apply these to affordable housing or regeneration schemes or use them for paying off housing debt. The assumption is that the reforms will allow pro-active and efficient management of HRA assets. The HRA asset management strategy therefore becomes a more significant Business Planning document.

Within the Council both senior officers and members of the Resources PDG have been kept informed of the proposals and key changes since the announcement in 2008.

Prudential Indicators Changes – Annex B

The proposed reform of the HRA subsidy arrangements are expected to take place on 28 March 2012. This will involve the Council paying funds to the CLG which will remove the Council from the HRA subsidy system. On the 21<sup>st</sup> November 2011 CLG published the draft determination to implement self-financing for Council Housing including the Settlement Payments determination which for South Kesteven is £122m. This will impact on both the capital structure of the Council (as the HRA Capital Financing Requirement will rise by the size of the CLG payment), and the treasury management service will need to manage the funding implications for the borrowing. The Council's prudential indicators shown in the table below highlight the position in relation to the original position, and the expected impact of the HRA reform payment in terms of the updated prudential indicator changes required.

<b>Prudential 2011/12</b>	<b>Indicator</b>	<b>Original £m</b>	<b>Impact of HRA Reform £m</b>	<b>Revised Prudential Indicator £m</b>
	Authorised Limit	£18.000m	£130.000m	£148.000

Operational Boundary	£3.000m	£130.000m	£133.000
Capital Requirement	Financing £6.811m	£14.000m	£14.000m

### Investment Strategy – Annex C

In conjunction with the Council's Treasury Management advisors a review has been undertaken on the Treasury Management Practice relating to credit and Counterparty risk management. This has been instigated due to restricted investment limit with each counterparty that the Council is able to invest with, given the limited number of high quality counterparties. This has led to operational difficulties and results in investing in relatively-lower quality counterparties because the limit is full with higher quality counterparties. In addition to this where specified institutions are offering favourable rates the Council is unable to maximise its returns due to the restrictions on counterparty limits. Therefore, a change is being proposed to enable the Council to have a more flexible and prudent approach to managing its investments, whilst spreading risk to ensure it has a strategy that it is fit for purpose in the current market situation.

The change being made to the Credit and Counterparty Risk management section on the Investment Strategy (annex C) is to include the criteria of allowing investments to be placed with Part-nationalised institutions. These counterparties would fall within the specified investment category to reflect their high credit quality as they are part owned by the government.

It should be noted whilst all investments placed after the approval of this strategy will comply with the updated specifications there may be some current investments that fall outside the revised boundaries. These investments will be closely monitored till maturity and any subsequent re-investments will then be made in line with the updated strategy.

As part of the Equality Impact Assessment work undertaken in the Finance and Risk Service it has identified the benefit of incorporating an Ethical Investment Statement into the overall Investment Strategy which is outlined below:

*Ethical Investment Statement - The council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the council*

*"The Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:*

- encouraging those institutions to adopt and publicise policies on socially responsible investments;*
- requesting those institutions to apply council deposits in a socially responsible manner."*

*Counterparties shall be advised of the above statement each and every time a deposit is placed with them.*

It should be noted whilst all investments placed after the approval of this strategy will comply with the updated specifications there may be some current investments that fall outside the revised boundaries. These investments will be closer monitored till maturity and any subsequent re-investments will then made in line with the updated strategy

Governance and Audit committee have met on the 1<sup>st</sup> December 2011 to consider the details contained in this report and Council will be informed should there be any proposed amendments.

#### **4. OTHER OPTIONS CONSIDERED**

None

#### **5. RESOURCE IMPLICATIONS**

As outlined in the report the Council will need to undertake a significant borrowing requirement of £122m to fund the self-financing payment. The implications of this will be a key consideration of the medium term financial planning arrangements.

#### **6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

None

#### **7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

None

#### **8. CRIME AND DISORDER IMPLICATIONS**

None

#### **9. COMMENTS OF FINANCAL SERVICES**

The financial implications are laid out in the main body of the report. The detail presented is in line with best practice and current guidance.

#### **10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

The formulation of a Treasury Management Strategy is a requirement of the CIPFA Code of Practice in Treasury Management. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

#### **11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER**

None

**12. APPENDICES:**

Appendix A – Updated Treasury Management Strategy 2011/12

**Treasury Management Strategy Report 2011/12**

This report outlines the Council's prudential indicators for 2011/12 – 2014/15 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements as required by the Local Government Act 2003:

- The reporting of the prudential indicators setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities. The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Code of Practice (Annex A);
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year – as required by Regulation under the Local Government and Public Involvement in Health Act 2007 (Annex A);
- The treasury management strategy statement which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix (Annex B);
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss (in accordance with the CLG (Communities for Local Government) investment guidance) (Annex B);

Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. The CLG revised the Investment Guidance in March 2010. The revised guidance arising from these have been incorporated within these report.

The main changes initiated in the revisions above increase the Members' responsibility in this area. This requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information. The Council has already incorporated these changes within its constitution by delegating responsibility for monitoring and revisions to the Treasury Management Strategy to Governance and Audit Committee. In addition to this the committee has undertaken specific Treasury Management training in September 2010. In addition to this the Council produces a mid-year report on performance in conjunction with an annual report which is presented to the Governance and Audit Committee.

In addition the impact of HRA reform, whilst not yet finalised at the time of updating the 2011/12 strategy, have been included to ensure the Council has approved the necessary limits and prudential indicators.

## **Appendix A - Annex A**

### **The Prudential Indicators 2010/11 – 2014/15**

#### **Introduction**

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revises the indicators for 2010/11, 2011/12 and 2012/13, and introduces new indicators for 2013/14 and 2014/15. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.
2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy for 2011/12 is included as Annex B to complement the indicators, and this report includes the prudential indicators relating to the treasury activity.
3. A number of Prudential Indicators covering treasury management have been moved to the Treasury Management Code of Practice. These Treasury Management indicators are contained within this report.

#### **The Capital Expenditure Plans**

4. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:
  - Service objectives (e.g. strategic planning);
  - Stewardship of assets (e.g. asset management planning);
  - Value for money (e.g. option appraisal);
  - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
  - Affordability (e.g. implications for the council tax and rents);
  - Practicality (e.g. the achievability of the forward plan).
5. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.
6. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need. Each year an annual revenue charge (Minimum Revenue Provision) to reduce the borrowing need.

7. The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some of estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to impact of the recession on the property market.
8. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

£m	2010/11 Revised £	2011/12 Estimated * £	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
Capital Expenditure					
Non-HRA	3.363m	4.582m	3.900m	1.800m	1.300m
HRA	5.322m	6.491m	4.460m	4.516m	5.432m
Financed by:					
Supported Borrowing	0.000m	0.000m	0.000m	0.000m	0.000m
Unsupported Borrowing	0.118m	0.000m	0.000m	0.000m	0.000m
Capital receipts reserve	0.000m	2.783m	3.096m	1.046m	0.546m
Capital grants	1.400m	0.829m	0.254m	0.254m	0.254m
Capital reserves	6.207m	5.911m	2.960m	3.016m	3.932m
Revenue	0.960m	1.550m	2.050m	2.000m	2.000m
Net financing need for the year	0	0	0	0	0

\* Note: The HRA capital expenditure will potentially increased on 28 March 2012 to accommodate the HRA reform payment to the CLG.

### The Council's Borrowing Need (the Capital Financing Requirement)

9. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

10. The Council is asked to approve the CFR projections below:

£m	2010/11 Revised £	2011/12 Estimated * £	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
Capital Financing Requirement					
CFR – Non Housing	4.846m	4.652m	4.466m	4.288m	4.116m
CFR - Housing	2.159m	2.159m	2.159m	2.159m	2.159m
Total CFR	7.005m	6.811m	6.625m	6.447m	6.275m
Movement in CFR	0.074m	0.194m	0.186m	0.178m	0.172m

\* Note: The CFR will potentially increase on 28 March 2012 by £14m, thereby increasing the 2011/12 CFR and subsequent years.

11. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). The MRP is the reason for the negative year on year movements in the CFR forecasts shown above.
12. CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.
13. For capital expenditure incurred before 1 April 2008 or which in the future will Supported capital Expenditure, the MRP policy will be:
  - **Existing practice** - MRP will follow the existing practice outline in former CLG Regulations.
14. From 1 April 2008 for all new unsupported borrowing the MRP policy will be:
  - **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Directive).

#### **The Use of the Council's resources and the Investment Position**

15. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2010/11 Revised £	2011/12 Estimated £	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
Fund balances	10.197m	9.662m	9.529m	8.990m	8.540m
Capital receipts	8.319m	6.476m	3.660m	3.514m	3.268m
HRA reserve	7.402m	6.343m	5.595m	5.323m	5.524m
Major Repairs Reserve	5.404m	3.586m	4.391m	5.235m	5.258m
<b>Total Core Funds</b>	<b>31.322m</b>	<b>26.067m</b>	<b>23.175m</b>	<b>23.062m</b>	<b>22.590m</b>
Working Capital*	(1.560m)	(1.560m)	(1.560m)	(1.560m)	(1.560m)
Expected Investments	29.762m	24.507m	21.617m	21.505m	21.030m

\* Working capital balances shown are estimated year end; these may be higher mid year

## Affordability Prudential Indicators

16. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

17. **Actual and Estimates of the ratio of financing costs to net revenue stream –** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2010/11 Revised £	2011/12 Estimated £	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
Non-HRA	(0.23%)	(0.52%)	(0.69%)	(1.34%)	(2.26%)
HRA*	(0.36%)	(0.60%)	(0.66%)	(0.66%)	(0.80%)

\* Note: This indicator will increase by the CLG payment of £122m, although estimates of the cost are not currently available, as the CLG payment figures have yet to be finalised.

18. The estimates of financing costs include current commitments and the proposals in this budget report.

19. **Estimates of the incremental impact of capital investment decisions on the Council Tax –** This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.

20. **Incremental impact of capital investment decisions on the Band D Council Tax**

£	Original 2010/11	Forward Projection 2011/12	Forward Projection 2012/13	Forward Projection 2013/14	Forward Projection 2014/15
Council Tax - Band D	(1.20)	0.97	0.28	1.13	0.81

21. **Estimates of the incremental impact of capital investment decisions on Housing Rent levels –** Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

## 22. Incremental impact of capital investment decisions Housing Rent levels

£	Original 2010/11	Forward Projection 2011/12	Forward Projection 2012/13	Forward Projection 2013/14	Forward Projection 2014/15
Weekly Housing Rent levels	(265.89)	212.90	(117.66)	722.91	869.54

23. This indicator shows the revenue impact on any newly approved schemes if there was no rent restructuring in place. However, there is no actual impact on rent levels through any decisions on capital investments due the operation of rent restructuring currently. These figures do not reflect the impact of the HRA Reform payment.

**Treasury Management Strategy 2011/12 – 2014/15**

1. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex A consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets balanced budget requirement under the Local Government Finance Act 1992.
2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). This Council adopted the Code of Practice on Treasury Management on 23 June 2004, and will adopt the revised Code.
3. As a result of adopting the Code the Council also adopted a Treasury Management Policy Statement (Date). This adoption is the requirements of one of the prudential indicators.
4. The Constitution requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury reports are produced after the year-end to report on actual activity for the year as was in year reporting of at least half-yearly.
5. This strategy covers:
  1. The Council's debt and investment projections;
  2. The Council's estimates and limits on future debt levels;
  3. The expected movement in interest rates;
  4. The Council's borrowing and investment strategies;
  5. Treasury performance indicators; and
  6. Specific limits on treasury activities.

**Debt and Investment Projections 2011/12 – 2014/15**

6. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. The expected maximum debt position during each year represents the Operational Boundary prudential indicator, and so may be different from the year end position.
7. The borrowing position is expected to change significantly in 2012 as, subject to statutory powers, the Council will be required to make a one off payment to the CLG to remove the HRA from the current housing subsidy system. The payment is expected to be £122m. This one off payment is compensation, ensuring the HRA will no longer make future annual payments to the CLG. Therefore, the relevant prudential indicators have been updated to reflect this.

£m	2010/11 Revised £	2011/12 Estimated *	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
<b>External Debt</b>					
Existing Debt at 1 April	(4.000m)	(2.591m)	(2.565m)	(2.539m)	(1.513m)
Expected change in debt	1.409m	0.026m	0.026m	1.026m	0.013m
Debt at 31 March	(2.591m)	(2.565m)	(2.539m)	(1.513m)	(1.500m)
Operational Boundary	3.000m	3.000m	3.000m	2.000m	2.000m
<b>Total Investments at 31 March</b>					
	<b>29.762m</b>	<b>24.507m</b>	<b>21.617m</b>	<b>21.505m</b>	<b>21.030m</b>
Investment change	(2.156m)	(5.255m)	(2.892m)	(0.113m)	(0.472m)

\* Note: The expected change in debt position and operational boundary will increase on 28 March 2012 to accommodate the HRA reform payment to the CLG

8. As part of the HRA reform payment to CLG the operational boundary is being increased by £130m to £133m. This limit has been set to ensure sufficient headroom is in place to allow the repayment as part of the Councils prudential indicators.
9. The related impact of the above movements on the revenue budget are:

£m	2010/11 Revised £	2011/12 Estimated *	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
<b>Revenue Budgets</b>					
Interest on Borrowing	0.322m	0.249m	0.249m	0.223m	0.145m
Related HRA Charge	(0.130m)	(0.095m)	(0.095m)	(0.095m)	(0.108m)
Net General Fund	0.192m	0.154m	0.154m	0.128m	0.037m
Borrowing Cost					
Investment income	(0.438m)	(0.466m)	(0.501m)	(0.566m)	(0.658m)

\* Note: The related HRA charge will potentially increased on 28 March 2012 to accommodate the HRA reform payment to the CLG.

### **Limits to Borrowing Activity**

10. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits.
11. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2011/12 and the following three financial years (the relevant comparative figures are highlighted). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

£m	2010/11 Revised £	2011/12 Estimated ** £	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
Gross Borrowing	2.591m	2.565m	2.539m	1.513m	1.500m
Investments	29.762m	24.507m	21.617m	21.505m	21.030m
Net Borrowing	<b>27.171m</b>	<b>21.942m</b>	<b>19.078m</b>	<b>19.992m</b>	<b>19.530m</b>
CFR*	7.005m	6.811m	6.625m	6.447m	<b>6.275m</b>

\* - Under the Prudential Code revision any falls in the CFR are ignored.

\*\* Note: The Gross Borrowing figure will increase by the CLG payment of £122m, although estimates of the cost are not currently available, as the CLG payment figures have yet to be finalised. Alongside this the CFR will potentially increase on 28 March 2012 by £14m, thereby increasing the 2011/12 CFR and subsequent years.

12. The Head of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.
13. The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
14. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.
15. The Council is asked to approve the following Authorised Limit taking into account the expected self-financing payment to CLG as part of the HRA reform:

Authorised limit £m	2010/11 Revised £	2011/12 Estimated £	2012/13 Estimated £	2013/14 Estimated £	2014/15 Estimated £
Borrowing	<b>18.000m</b>	<b>18.000m</b>	<b>18.000m</b>	<b>18.000m</b>	<b>18.000m</b>
+ HRA Reform		<b>130.000m</b>	<b>130.000m</b>	<b>130.000m</b>	<b>130.000m</b>
Other long term liabilities	-	-	-	-	-
Total	<b>18.000m</b>	<b>148.000m</b>	<b>148.000m</b>	<b>148.000m</b>	<b>148.000m</b>

- Borrowing in advance of need – The Council has some flexibility to borrow funds this year for use in future years. The Head of Finance may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Head of Finance will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that

- Would not look to borrow more than 24 months in advance of need.
16. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.
17. Expected Movement in Interest Rates

Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB 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

\* Borrowing Rates

**Global Economy**

18. The outlook for the global economy remains clouded with uncertainty with the broad economy struggling to generate sustained recovery that offers any optimism for the outlooks for 2011 and 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 prospects of a significant boost in growth in the short term.
19. 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 inability to address the underlying fundamental problems of the economy has seen an escalation of their problems. These look certain to result in a default of some kind; either “orderly” or “disorderly”, and/or a possible exit from the Euro bloc.
20. As if that were not enough there is growing concern about the situation in Italy and the risk that contagion has not been contained. The Eurozone is coming under stress with the core countries, Germany and France increasingly supporting the weaker members, with the IMF also becoming entwined in resolving the problems in the region.

21. The US economy offers little to lift spirits. Heading into election year the current administration has been hamstrung by political gridlock on Capitol Hill, with the two houses split between the parties. In Q3 the Federal Reserve brought "Operation Twist" into effect (QE3 to all intents and purposes) in an effort to re-ignite the economy in which growth is stalling. Extremely high levels of unemployment and a dead housing market are weighing heavily on the ability to generate sustained growth.
22. The hopes for broad based recovery have been 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 tightening monetary policy to suppress inflationary pressures, and is headed for a "soft landing" which ensures hope that demand within the economy will help to spark wider recovery.

### **UK Economy**

23. The Government's austerity measures, aimed at putting 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 the economy has flatlined and shows signs of going into reverse offer the potential for a negative impact that the Chancellor had not bargained for, particularly if the private sector does not step up to fill the gap in government spending as he had projected. The housing market, a gauge of consumer confidence, remains weak and the outlook is for prices to be little changed for a prolonged period.
24. **Economic Growth** – GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forecasts for 2011 and 2012 are being revised lower on a near quarterly basis as the UK recovery has, effectively stalled. With fears of a potential return to recession the Bank of England has, because of no action from the Government, been forced to announce the implementation of a second round of Quantitative Easing to stimulate activity. There are no guarantees that this will be any more successful than the previous tranche.
25. **Unemployment** – With the impact of the Government's austerity strategy beginning to impact the trend for 2011 is likely to be one of steadily increasing unemployment with limited prospects of any improvement in 2012, given the weakening economic environment now being projected.
26. **Inflation and Bank Rate** – For the last two year MPC's contention has been that high inflation was the outcome of temporary external factors, and that view remains in place with CPI inflation standing at 5.2% as Q4 2011 commences. They remain of the view that the rate will fall back to at, or below, the 2% target level within the two year horizon and it would seem that some of those external influences are now beginning to show signs of easing which should help their case in 2012.
27. However, it is abundantly clear that the MPC's primary remit of controlling prices has become of secondary importance to economic growth. With the latter slowing almost to the point of contraction a second wave of QE was approved in September 2011 in another attempt to generate a sustained path to recovery.

28. Given the circumstances, and the potential for damaging prospects for recovery, Sector sees the prospects for any interest rate changes before mid-2013 as very limited.
29. AAA rating – The ratings agencies have reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy at 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.
30. This credit position has ensured that the UK government is able to fund itself at historically low levels and with the safe haven status also drawing in external investment the pressure on rates has been down, and looks set to remain so for some time.
31. 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.

#### **Borrowing Strategy 2011/12 – 2014/15**

32. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.
33. Long-term fixed interest rates are expected to be higher over the medium term and short term rates are expected to rise, although more modestly. The Head of Finance, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. The size and impact of the HRA Reform payment is clearly a huge change in indebtedness for the Council. The Council will require the cash to be available to pay the CLG on 28 March 2012, so a structured debt drawdown will take place to take account of both the needs of the HRA and the resultant impact on the Non-HRA, as well as the overall impact on Council's finances. This will be considered in the light of the legislative framework, the HRA business plan and the prevailing interest rates.
34. With the likelihood of long term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper short term debt, although the Head of Finance will monitor prevailing rates for any opportunities during the year.
35. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

**Investment Strategy 2011/12 – 2014/15**

36. **Key Objectives** - The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background above, the current investment climate has one over-riding risk consideration, that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

37. **Risk Benchmarking** – A development in the revised Codes and the CLG Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. Additional background in the approach taken is attached at Annex B2.

38. These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

39. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- **0.1%** historic risk of default when compared to the whole portfolio.

40. Liquidity – In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.25m
- Liquid short term deposits of at least £3m available with a week's notice.
- Weighted Average Life benchmark is expected to not exceed a maximum of 1 year.

41. **Yield - Local measures of yield benchmarks are :**

- Investments – Internal returns above the 7 day LIBID rate
- Investments – External fund managers - returns 10% above 7 day compounded LIBID.

42. **And in addition that the security benchmark for each individual year is:**

	1 year	2 years	3 years	4 years	5 years
<b>Maximum</b>	<b>0.08%</b>	<b>0.22%</b>	<b>0.37%</b>	<b>0.52%</b>	<b>0.70%</b>

Note: This benchmark is an average risk of default measure (potential loss on investments), and would not constitute an actual expectation of loss against a particular investment.

43. **Investment Counterparty Selection Criteria** - The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
  - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
44. The Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to either Council or Governance and Audit for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.
45. The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution (where rated). For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.
46. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.
47. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:
- **Banks & Building Societies** – the Council will use a criteria based system covering Banks & Building Societies. (see Annex C for specific criteria).
  - The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity)
  - A local authority
  - Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

The proposed criteria for Specified and Non-Specified investments are shown in Annex C for approval.

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the investment prudential indicator below

48. The proposed criteria for Specified and Non-Specified investments are shown in Annex B1 for approval.
49. **Economic Investment Considerations** - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid/late 2013. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.
50. There is an operational difficulty arising from the Eurozone crisis, following on from the 2008/09 credit crisis. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.
51. The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Head of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.
52. Examples of these restrictions would be the greater use of the Debt Management Account Deposit Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria have been amended to reflect these facilities.

### **Sensitivity to Interest Rate Movements**

53. Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

£m	2011/12 Estimated + 1%	2011/12 Estimated - 1%
Revenue Budgets		
<b>Interest on Borrowing</b>	0.322m	0.322m
<b>Related HRA Charge*</b>	(0.130m)	(0.130m)
<b>Net General Fund Borrowing Cost</b>	0.192m	0.192m
<b>Investment income</b>	<b>0.730m</b>	<b>(0.146m)</b>

\*Note - these figures do not reflect the impact of the HRA Reform payment

### Treasury Management Limits on Activity

54. There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

### 55. The Council is asked to approve the limits:

£m	2011/12	2012/13	2013/14	2014/15
<b>Interest rate Exposures</b>				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	<b>7.000m</b>	<b>7.000m</b>	<b>7.000m</b>	<b>7.000m</b>
Limits on variable interest rates based on net debt	<b>2.000m</b>	<b>2.000m</b>	<b>2.000m</b>	<b>2.000m</b>
<i>Limits on fixed interest rates:</i>				
• Debt only	100%	100%	100%	100%
• Investments only	100%	100%	100%	100%
<i>Limits on variable interest rates</i>				
• Debt only	30%	30%	30%	30%

• <i>Investments only</i>	30%	30%	30%	30%
<b>Maturity Structure of fixed interest rate borrowing 2011/12</b>				
	Lower	Upper	Upper	
Under 12 months	0%	<b>40%</b>	<b>0%</b>	
12 months to 2 years	0%	<b>40%</b>	<b>40%</b>	
2 years to 5 years	0%	<b>100%</b>	<b>100%</b>	
5 years to 10 years	0%	<b>100%</b>	<b>100%</b>	
10 years and above	0%	<b>100%</b>	<b>100%</b>	
<b>Maximum principal sums invested &gt; 364 days</b>				
Principal sums invested > 364 days	<b>£12m</b>	<b>£8m</b>	<b>£5m</b>	<b>£5m</b>

*Indicators for debt only and investments only as well as fixed and variable debt maturity profile have been included as local indicators and do not reflect the impact of the HRA Reform payment*

### **Performance Indicators**

56. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID (London Interbank Bid Rate)
- Investments – External fund managers - returns 110% above 7 day compounded LIBID.

The results of these indicators will be reported in the Treasury Annual Report.

### **Treasury Management Advisers**

57. The Council uses Sector as its treasury management advisers. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;

- Credit ratings/market information service comprising the three main credit rating agencies;
58. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

#### **Member and Officer Training**

59. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:
1. Carrying out a programme of specific Treasury Management training with the members of the Governance and Audit Committee
  2. Improved Governance arrangements through annual report and midyear strategy revisions had aided the development and knowledge of committee members.
  3. Ensuring staff involved in the Treasury Management function are suitably qualified and have access to regular information updates and developments within the treasury arena.

## **Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management**

CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 June 2004 and will apply its principles to all investment activity. In accordance with the Code, the Head of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy Guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

The criteria enable the Council to choose Specified and Non Specified investments. The rating criteria is based on the Lowest Common Denominator method (LCD - this includes ratings by Standard and Poor's, Moody's and Fitch) and institutions must meet all criteria (where rated) in order for the Council to place investments with them.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. The Council’s Treasury Management Officer is restricted to placing Specified Investment funds with:

	<b>Specified Investments Category</b>	<b>Limit</b>																											
a	<p><b>A body of high credit quality</b>, this category includes the following -</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> A UK bank or building society awarded a high credit rating by a credit rating agency, meeting the following criteria using the LCD method</li> </ul> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th colspan="4">Fitch</th> <th colspan="3">Moody’s</th> <th colspan="2">Standard and Poor’s</th> </tr> <tr> <th>Short Term</th> <th>Long Term</th> <th>Individual</th> <th>Support</th> <th>Short Term</th> <th>Long Term</th> <th>Financial Strength</th> <th>Short Term</th> <th>Long Term</th> </tr> </thead> <tbody> <tr> <td>F1</td> <td>AA-</td> <td>C</td> <td>3</td> <td>P1</td> <td>Aa3</td> <td>C</td> <td>A-1</td> <td>AA-</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li><input type="checkbox"/> A body of high credit quality that was an Eligible Institution under the UK Government’s Asset protection scheme, and with minimum criteria of F1, A+ and equivalent from Moody’s and Standard &amp; Poor’s using the LCD method. The counterparty may also has a proportion of the UK government ownership.</li> <li><input type="checkbox"/> Part nationalised banks can be included within specified investments as long as they remain part-nationalised or meet the ratings criteria as outlined above.</li> </ul>	Fitch				Moody’s			Standard and Poor’s		Short Term	Long Term	Individual	Support	Short Term	Long Term	Financial Strength	Short Term	Long Term	F1	AA-	C	3	P1	Aa3	C	A-1	AA-	<p>£10m per institution or a maximum of 30% of fixed term investment (whichever is the greatest), £10m per corporate group</p>
Fitch				Moody’s			Standard and Poor’s																						
Short Term	Long Term	Individual	Support	Short Term	Long Term	Financial Strength	Short Term	Long Term																					
F1	AA-	C	3	P1	Aa3	C	A-1	AA-																					
b	<b>The UK Government</b> (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity)	no amount limit																											
c	<b>UK local authorities</b>	£5m per LA, £10m all LAs																											
d	<p><b>Pooled investment vehicles</b> (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This category covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor’s, Moody’s or Fitch rating agencies.</p> <p>CLG Investment Guidance specifies that Money Market Funds with high credit ratings are classified as Specified Investment. These funds are instant access investment. There is possibility that part of the investment may be exposed to counterparties the Council would not approve normally or invest directly. The counterparty risk is mitigated by that –</p> <ul style="list-style-type: none"> <li>• The Fund Managers diversify investment in a range of counterparties;</li> <li>• The Funds are instant access;</li> <li>• The Council only invests in funds rated AAA;</li> <li>• DCLG Investment Guidance classifying such funds as Specified Investment.</li> </ul>	<p>£5m per fund, £10m all funds</p>																											

**Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Amounts invested with any one institution shall not exceed £2m for periods of more than 2 years. Amounts invested with any one corporate group shall not exceed £5m (with the exception of Councils own bank).

Amounts invested in non specified fixed term investment would normally not exceed 25% of total funds placed in fixed term deposit. The Head of Finance has the discretion to exceed the limit within reasons. If these circumstances are required this will be reported back to the appropriate committee.

	<b>Non Specified Investment Category</b>	<b>Limit</b>
a.	<b>Any institutions meeting the criteria set out for Specified Investments</b> , with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£4m maximum of 2 years per institution
b.	<b>Councils Bank</b> – Should its ratings fall below that required for specified investment, monies will be restricted to instant access.	£7m
c.	<b>Top 10 building societies, by asset value.</b>	£2m, 2 years per institution. £5m for all B/S sector

**Local Authority Mortgage Scheme.** Under this scheme the Council will place a maximum fund of £1m, with one of the approved lenders participating in the LAMS scheme for a fixed period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories

**The Monitoring Investment Counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Sector, on a daily basis and as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance, and if required new counterparties which meet the criteria will be added to the list.

Investments for periods exceeding 364 days limited to 25% of Fixed Term Deposit fund held, and forward commitment investments limited to 25% of Fixed Term Deposit fund

held; and Notice Accounts are classified as Fixed Term Deposit before the notice expires.

**Use of External Fund Managers** –The Council currently uses external fund managers for part of its investment portfolio. The Council is not restricted to placing funds with cash managers, and will manage funds in house, use fund managers, or brokers if it is appropriate to do so.

The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. Currently the Council has an agreement with Tradition UK and Sterling International. The fund managers are required to adhere to the following:

- All investments restricted to sterling denominated instruments;
- Amounts invested with any one institution or Corporate Group should not exceed the limits specified in Table A and Table B.
- Portfolio management is measured against the return provided by the 3 month sterling LIBID, or in accordance with the measures specified in the contract.

The performance of investment managed by Fund Managers is reviewed at least quarterly by the Head of Finance.

**Ethical Investment Statement** - The council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the council

“The Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply council deposits in a socially responsible manner.”

Counterparties shall be advised of the above statement each and every time a deposit is placed with them.

## Security, Liquidity and Yield Benchmarking

**Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service** - A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate
- Investments – External fund managers - returns 10% above 7 day compounded LIBID.

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However they have not previously been separately and explicitly set out for Member consideration. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.25m
- Liquid short term deposits of at least £3m available with a week’s notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- WAL benchmark is expected to be 0.25 years, with a maximum of 1 years.

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2007.

Long term rating	1 year	2 years	3 years	4 years	5 years
<b>AAA</b>	0.00%	0.01%	0.05%	0.10%	0.17%
<b>AA</b>	0.03%	0.06%	0.08%	0.14%	0.20%
<b>A</b>	0.08%	0.22%	0.37%	0.52%	0.70%
<b>BBB</b>	0.24%	0.68%	1.19%	1.79%	2.42%

The Council's minimum long term rating criteria is currently "A" (amend as necessary), meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £300). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- 0.1% historic risk of default when compared to the whole portfolio.

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
<b>Maximum</b>	<b>0.03%</b>	<b>0.12%</b>	<b>0.10%</b>	<b>0.08%</b>	<b>0.06%</b>

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

**Appendix A - Annex D**

**Risk Management** – The Council undertakes risk assessment for all fixed term deposits. The risk assessment uses the following template –

**Risk assessment of new investment (last updated August 2009)**

<b>Investment</b>	<b>Institution</b>	<b>Risk Assessment</b>		
Investment Product	Institution name	<i>Risk of the counterparty defaulting on investment</i>		
			<i>Likelihood</i>	
		Counterparty on our specified list: Instant access	1.4	
		Counterparty only on non specified list: Instant access	1.7	
Principal Value	Eligibility	Counterparty on our specified list: <=364 days	2	Unlikely
		Counterparty only on non specified list: <=364 days	2.4	
		Counterparty only on non specified list: >364 days	3	Likely
Term	Limit with this institution			
		<i>Impact of losing the investment</i>		<i>Impact</i>
Rate	Existing investment value	Total principal less than £700,000	1	Negligible
		Total principal between £700,000 and £1.4m	2	Minor
		Total principal between 1.4m and £3.5m	3	Major
Rate %	Value inc new investment	Total principal greater than £3.5m	4	Critical

**Risk Score :**

Internal Reference Is it within the limit?

Risk assessed by:

Risk assessment date: