Agenda Item No:

Report to: Audit Committee

Date of Meeting: 21 March 2011

Report Title: Treasury Management and Annual Investment Strategy 2011/12, including Quarterly Monitoring Reports for 2010/11

Report By: Neil Dart, Deputy Chief Executive and Director of Corporate Resources and Peter Grace, Head of Financial Services

Purpose of Report

To provide the Audit Committee with the opportunity to scrutinise the Treasury management and Investment Strategy prior to the start of the financial year. The Council has some £12million of debt along with investments which can fluctuate between £16million and £25million during the year. The proper management of the Council's cash funds is critical to the success of the Council.

Recommendation

1. **To note the report and comment on any areas that the Committee wishes to draw to the attention of Cabinet.**

Reasons for Recommendations

The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The sums involved are large and the assumptions made play an important part in determining the Council's Medium Term Financial Strategy and the annual budget setting process. Compliance with the CIPFA Code of Practice represents best practice and ensures compliance with statutory requirements. In compliance with the code it was agreed in 2010/11 that scrutiny of the strategy would be undertaken by the Audit Committee prior to the start of each new financial year. If changes to the Strategy are required these have to be agreed by Council.

Background

INTRODUCTION

1. The Council approved the Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision on the 28th February 2011. In compliance with the Code of Practice on Treasury Management Councils must delegate the role of scrutiny of treasury management strategy and policies to a specific named body; in Hastings BC's case this responsibility is delegated to the Audit Committee

2. The full report to Cabinet on the 16th February 2011 which was subsequently approved by Council on the 28th February 2011 is attached (Appendix 1).

3. In terms of future reporting, and compliance with the Code of Practice, a mid year report to Council will again be produced which is intended to highlight any areas of concern that have arisen since the original strategy was approved. There will also be an end of year report on outcomes (produced by 30 September). Any changes to the Strategy during the year would need full Council approval.

4. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

RISK MANAGEMENT

5. The strategy prioritises security of investments over return. External treasury advisers are used to advise the Council. Whilst there is no absolute security for investments made, the Council has limited its investments to the higher rated institutions in order to mitigate the risk as far as practical and looks to mitigate the risk by spreading its investment portfolio. The Council has adopted the CIPFA Code of Practice and has provided training for members.

ECONOMIC/FINANCIAL IMPLICATIONS

6. The Council generally has investments in the year of between £16m and £25m at any one time, and longer term borrowings of £12m. It has a gross budget of some £96million and the management of its investments, borrowing and cash flow remains crucial to the proper and effective management of the Council. The Strategies and Policies followed directly influence the Council's Medium Term Financial Strategy and the annual budget.

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No

Supporting Documents

APPENDICES

1. Cabinet Report, 16 February 2011, Treasury Management and Annual Investment Strategy 2011/12, including Quarterly Monitoring Reports for 2010/11

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Agenda Item No:

Report to: **Cabinet**

Date of Meeting: **16 February 2011**

Report Title: Treasury Management and Annual Investment Strategy 2011/12, including Quarterly Monitoring Reports for 2010/11

Report By: Neil Dart, Deputy Chief Executive and Director of Corporate Resources and Peter Grace, Head of Financial Services

Purpose of Report

To consider the Treasury Management and Annual Investment Strategy to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities. The Council has £12million of debt, and investments which can fluctuate between £16million and £25million during the year.

There is a statutory requirement to determine, by full Council, the Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2011/12) prior to the start of the new financial year.

Recommendation(s)

That Council be recommended to approve the Treasury Management Strategy, MRP Policy and Annual Investment Strategy (2011/12)

Reasons for Recommendations

The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The sums involved are large and the assumptions made play an important part in determining the Council's Medium Term Financial Strategy and the annual budget setting process. Compliance with the CIPFA Code of Practice (2009) represents best practice and ensures compliance with statutory requirements.

Background

INTRODUCTION

1. The CIPFA Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 15th February 2010 and this Council fully complies with its requirements.

2. The purpose and requirements of the code are in Appendix 8.

3. Treasury management in this context is defined as:

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

4. The Council maintains detailed Treasury Management Practices (TMPS), which are determined by the Deputy Chief Executive and Director of Corporate Resources and kept under regular review. These ensure effective day to day management of Treasury management activities

5. The reporting arrangements proposed, in accordance with the requirements of the revised Code, are summarised below: -

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet and Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet and Council	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet and Council	As required
Annual Treasury Outturn Report	Cabinet and Council	Annually by 30 September after the end of the year
Treasury Management Practices	S151 Officer	Reviewed as required (minimum - annually)
Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of treasury management performance and Strategy	Audit Committee	Quarterly Monitoring reports, Mid Year report,

Revised CIPFA Prudential Code

6. CIPFA has also issued a revised Prudential Code (2009) which identifies best practice when making Capital Investment decisions. It is primarily related to the Council's Capital expenditure programme, external debt and treasury management and identifies a number of "Prudential Indicators" which help to ensure affordability of investment decisions and a level of prudence when making borrowing and Treasury management decisions. The Council is required to determine the Prudential Indicators as part of the Treasury Management Strategy; these are identified in Appendix 3.

Quarterly Monitoring Reports 2010-11

7. The performance achieved for the last three quarters in respect of investment returns are detailed below in respect of internal and external management:-

Internal (HBC)	**Equated Capital (£)**	**Interest (£)**	**Avg. Interest Rate (Annualised)**
Quarter 1	1,711,719	16,033	0.94%
Quarter 2	1,235,984	11,839	0.96%
Quarter 3	2,164,625	19,527	0.90%
Total to Date	**5,112,328**	**47,399**	**0.93%**
External (Aviva)			
Quarter 1	4,196,926	17,214	0.41%
Quarter 2	4,204,896	46,031	1.09%
Quarter 3	4,209,913	-6,224	-0.14%
Total to Date	**12,611,735**	**57,021**	**0.45%**
Total			
Quarter 1	5,908,645	33,248	0.56%
Quarter 2	5,440,880	57,870	1.06%
Quarter 3	6,374,538	13,303	0.21%
Total to Date	**17,724,063**	**104,421**	**0.59%**

8. The performance of Aviva (fund managers) in quarter 3 was disappointing with a loss incurred; this resulted mainly from trading in Gilts.

9. All Treasury Management indicators e.g. borrowing limits have been adhered to during the year to date.

Treasury Management Strategy for 2011/12

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

11. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (paragraphs 38-41); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

12. The suggested strategy for 2011/12 in respect of the following aspects of the treasury management function is based upon the Council officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services.

13. The strategy covers:

    1. treasury limits in force which will limit the treasury risk and activities of the Council
    2. Prudential and Treasury Indicators
    3. the current treasury position
    4. the borrowing requirement
    5. prospects for interest rates
    6. the borrowing strategy
    7. policy on borrowing in advance of need
    8. debt rescheduling
    9. the investment strategy
    10. creditworthiness policy
    11. policy on use of external service providers
    12. the MRP strategy

Balanced Budget Requirement

14. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Thus any increases in costs (running costs & borrowing costs) from new capital projects must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

TREASURY LIMITS FOR 2011/12 TO 2013/14

15. It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow - the "Affordable Borrowing Limit". The Council must also determine an "Authorised Limit" which represents the legislative limit specified in the Act.

16. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax levels is 'acceptable'.

17. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements (certain leases). The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit can be found in Appendix 3 of this report.

PRUDENTIAL AND TREASURY INDICATORS FOR 2011/12 – 2013/14

18. Prudential Indicators (as set out in appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

CURRENT PORTFOLIO POSITION

19. The Council's treasury portfolio position at 12 January 2011 comprised:-

	Source	Principal	Rate
Fixed Rate Funding	PWLB**	£7.5m	4.80% Fixed
Fixed Rate Funding	PWLB**	£2.5m	1.54% Fixed
Variable Rate Funding	PWLB	£2.0m	0.69% Variable*
Other Long Term Liabilities		___	-
Total Long Term Borrowing		£12m	
Total Investments		(£22.8m)	
Net Investments		(£10.8m)	

* rate at 1st January (rates change every 3 months)
** PWLB - Public Works Loan Board

For the purposes of the strategy it has been assumed that the £2.5m PWLB loan will be refinanced at a cost effective time at a similar rate.

BORROWING REQUIREMENT

20. Our long term borrowing will need to be determined by the relative merits of using alternative funding sources, including the reduction of investments, based on an assessment of market conditions as set out in the borrowing strategy below. Borrowing will not exceed the figures set out in the Prudential Indicators.

PROSPECTS FOR INTEREST RATES

21. The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

    Sector's bank base rate forecast for financial year ends (March) is:-

2011	0.50%
2012	1.00%
2013	2.25%
2014	3.25%

22. There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. A detailed view of the current economic background is contained within Appendix 4 to this report.

BORROWING STRATEGY

23. The Sector forecast for the Public Works Loan Board (PWLB) new borrowing rate is as follows: -

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PWLB rate	3.00%	3.00%	3.10%	3.20%	3.30%	3.50%	4.40%	5.00%
10yr PWLB rate	4.10%	4.10%	4.10%	4.20%	4.30%	4.40%	5.00%	5.40%
25yr PWLB rate	5.00%	5.10%	5.20%	5.30%	5.30%	5.40%	5.50%	5.70%
50yr PWLB rate	5.10%	5.20%	5.30%	5.40%	5.40%	5.50%	5.60%	5.70%

24. In view of the above forecast the Council's borrowing strategy will be based upon the following information.

    1. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against the potential increase in long term costs should rates be higher in future years.

    2. The use of PWLB variable rate loans for up to 10 years

    3. The use of long term fixed rate market loans should rates be significantly below PWLB rates for the equivalent maturity period.

    4. PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

    5. Preference will be given to PWLB borrowing by maturity loans

    6. Rates are expected to gradually increase during the year so it should therefore be advantageous to time any new borrowing for the start of the year.

25. Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

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

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

External versus Internal borrowing

Comparison of gross and net debt positions at year end	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Estimated out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Actual external debt (gross)	12,000	12,000	14,000	14,000	13,000
Cash balances	(19,642)	(16,500)	(14,000)	(14,000)	(13,000)
Net debt	(7,642)	(4,500)	0	0	0

26. This Council currently anticipates net investments (after deducting cash balances), of some £4.5m at the 31 March 2011.

27. The general aim of this treasury management strategy is to reduce the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing. However to minimise longer term costs it needs to borrow when rates are a historically low levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

28. With low growth in the economy interest rates in the short term are expected to remain low. This provides a continuation of the current window of opportunity for local authorities to review their strategy of undertaking new external borrowing.

29. Over the next three years, investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

30. However, short term savings by avoiding new long term external borrowing in 2011/12 will also be weighed against the potential for incurring additional long term extra costs by delaying new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

31. Against this background caution will be adopted with the 2011/12 treasury operations.

Policy on borrowing in advance of need

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

33. In determining whether borrowing will be undertaken in advance of need the Council will:

    1. ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.

    2. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

    3. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.

    4. consider the merits and demerits of alternative forms of funding.

    5. consider the appropriate funding period.

    6. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and the level of such risks given the controls in place to minimise them

DEBT RESCHEDULING

34. The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

35. As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a skew towards longer dated PWLB.

36. The reasons for any rescheduling to take place will include:

    1. the generation of cash savings and / or discounted cash flow savings,

    2. helping to fulfil the strategy outlined in paragraph 7 above

3. enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Minimum Revenue Provision (MRP)

37. The Revenue and Capital budget report elsewhere on the Agenda makes reference to this provision. Appendix 1 of this report provides the detail on what the MRP is and the basis of the calculation. Basically, authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.

38. The Council is required to make a “Prudent Provision” which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision (MRP). The MRP for 2011/12 is estimated at £457,000.

ANNUAL INVESTMENT STRATEGY

Investment Policy

39. The Council will have regard to the CLG’s Guidance on Local Government Investments (“the Guidance”) and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments.

40. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

41. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

42. Investment instruments identified for use in the financial year are listed in Appendix 5 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

Creditworthiness Policy

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

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

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

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

    - Purple - 2 years
    - Blue - 1 year (only applies to nationalised or semi nationalised UK Banks)
    - Orange -1 year
    - Red - 6 months
    - Green - 3 months
    - No Colour - not to be used

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

47. All credit ratings are monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

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

49. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

50. In addition, the Council, following the return of the Foreshore Trust has investments in CCLA – a company owned by its investors (Churches, Charities, Local authorities). The lending list will be expanded to include CCLA for the present time.

Investment Strategy

51. In-house funds: The Council is bringing the external investments of £16.7 million back in-house. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

52. In-house investments (at 12 January 2011) were:-

	Amount
Lloyds TSB	£3,000,000
Bank of Scotland	£2,000,000
Alliance & Leicester BS	£1,157,799

Interest rate outlook: Bank Rate has been unchanged at 0.5% since March 2009, but is forecast to commence rising in quarter 3 of 2011 and then to increase steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows: -

2011 0.50%
2012 1.00%
2013 2.25%
2014 3.25%

53. There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

54. The Council will avoid locking into longer term deals (beyond 1 year) while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.

55. For 2010/11 the Council's revised budget estimates an investment interest return of 0.75%, and in 2011/12 the return is budgeted at 1%.

56. For its cash flow generated balances, the Council will seek to use Business Reserve accounts, 15 and 30 day accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of year investment report

57. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. (to be presented by no later than 30 September)

Policy on the use of external service providers

58. The Council uses Sector Treasury Services as its external treasury management advisers. There is currently value in employing external providers of treasury management services in order to acquire access to credit worthiness information and specialist advice.

Scheme of delegation

59. Please see Appendix 9.

Role of the section 151 officer

60. Please see Appendix 10.

RISK MANAGEMENT

61. The strategy prioritises security of investments over return. Where investments are made they are limited in size and duration. External treasury advisers are used to advise the Council and have been used to train members. The Council has introduced further checks on credit worthiness of counterparties over the last two years as and when these have been further developed by its advisers.

62. Whilst there is no absolute security for investments made, the Council has limited its investments to the higher rated institutions, in order to mitigate the risk as far as practical and looks to reduce the risk by spreading its investment portfolio. The Council has adopted the CIPFA Code of Practice.

ECONOMIC/FINANCIAL IMPLICATIONS

63. The Council generally has investments in the year of between £16m and £25m at any one time, and longer term borrowings of £12m. It has a gross budget of some £100 million and the management of its investments, borrowing and cash flow remains crucial to the proper and effective management of the Council. The Strategies and Policies detailed in the report directly influence the Council's Medium Term Financial Strategy and the annual budget.

ORGANISATIONAL CONSEQUENCES

64. The Cabinet is responsible for the development and review of the Treasury Management Strategy, The Minimum Revenue Provision (MRP) Policy and the Investment Strategy. The Audit Committee is responsible for scrutinising these strategies, policies and performance throughout the year. Full Council, as the budget setting body, remains responsible for the approval of the Treasury Management Strategy, MRP Policy, and Investment Strategy.

    Quarterly monitoring reports will be produced and will be presented to Cabinet and the Audit Committee. A mid year report is presented to full Council on any concerns arising since approving the initial strategies and policies. Only Full Council will be able to amend the Treasury Management Strategy, MRP Policy or Investment Strategy. The Deputy Chief Executive and Director of Corporate

Resources will determine the Treasury Management Practices and associated schedules.

Wards Affected
None

Area(s) Affected
None

Policy Implications
Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes

Supporting Documents
APPENDICES

1. MRP Introduction and Policy Statement
2. Interest Rate Forecasts
3. Prudential and Treasury indicators
4. Economic Background
5. Specified and non specified investments
6. Approved countries for investments
7. Treasury Management Policy Statement
8. Purpose and requirements of the code
9. Treasury management scheme of delegation
10. The treasury management role of the section 151 officer
11. Hastings BC lending list

Other Supporting Documents:-

CIPFA - Treasury Management Code of Practice (Revised 2009)

CIPFA - The Prudential Code (Revised second edition 2009)

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APPENDIX 1

Minimum Revenue Provision – An Introduction

1. What is a Minimum Revenue Provision?
Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty
Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance
Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -
Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
equal instalment method – equal annual instalments,
annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Minimum Revenue Provision Policy Statement 2011/12

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 , and will assess the MRP for 2011/12 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

A major proportion of the MRP for 2011/12 relates to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31st March 2011 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

APPENDIX 2 Interest Rate Forecasts

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. Individual Forecasts

Sector

Interest rate forecast – 05.01.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

Capital Economics

Interest rate forecast – 8.11.10

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
10yr PWLB rate	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
25yr PWLB rate	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%
50yr PWLB rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

UBS

Interest rate forecast (for quarter ends) – 20.10.10

	Mar-11	Jun-11	Sep-11	Dec-11
Bank rate	0.50%	0.50%	0.75%	1.00%
10yr PWLB rate	4.10%	4.30%	4.50%	4.60%
25yr PWLB rate	5.10%	5.10%	5.20%	5.30%
50yr PWLB rate	5.20%	5.20%	5.30%	5.40%

2. Survey of Economic Forecasts

HM Treasury October 2010
The current Q4 2010 and 2011 forecasts are based on the October 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in August 2010.

BANK RATE FORECASTS	Bank Rate	Quarter end		Annual ave. Bank Rate				
	actual	Q4 2010	Q4 2011	ave. 2010	ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	0.50%	0.90%	0.50%	1.00%	1.90%	2.80%	3.40%
Highest	0.50%	0.80%	3.20%	0.60%	2.10%	3.10%	4.10%	5.30%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	1.20%

APPENDIX 3 Prudential Indicators

PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13	2013/14
(1). EXTRACT FROM BUDGET	£'000	£'000	£'000	£'000	£'000
	Actual	Probable Outturn	Estimate	Estimate	Estimate
Capital Expenditure	£6,449	£10,165	£6,138	£1,344	£890
Ratio of financing costs to net revenue stream	-0.5%	1.2%	1.7%	1.0%	1.2%
Net borrowing requirement	£1,271	£1,830	£0	£0	£0
Capital Financing Requirement as at 31 March	£14,107	£15,503	£15,046	£13,550	£12,139
Annual change in Capital Financing Requirement	£942	£1396	£-457	£-1,496	£-1,411
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	£2.06	£2.69	£8.68	£8.87	£5.87

PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13	2013/14
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000	£'000	£'000
	Actual	Probable Outturn	Estimate	Estimate	Estimate
Authorised Limit for external debt -					
borrowing	£45,000	£20,000	£20,000	£20,000	£20,000
other long term liabilities	£0	£0	£10,000	£10,000	£10,000
TOTAL	£45,000	£20,000	£30,000	£30,000	£30,000
Operational Boundary for external debt -					
borrowing	£30,000	£20,000	£20,000	£20,000	£20,000
other long term liabilities	£0	£0	£10,000	£10,000	£10,000
TOTAL	£30,000	£20,000	£30,000	£30,000	£30,000

Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments OR:-	100 %	100 %	100 %	100 %	100 %
Upper limit for variable rate exposure Net principal re fixed rate borrowing / investments OR:-	100 %	100 %	100 %	100 %	100 %
Upper limit for total principal sums invested for over 364 days	£0	£0	£0	£0	£0

Maturity structure of fixed rate borrowing during 2011/12	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 4 Economic Background

Economic Background

4.1. Global economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland, occurred in the autumn of 2010.

The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.

4.2 UK economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This is expected to have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a negative trend during the summer and autumn of 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.

Economic Growth – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. The first estimate of +0.8% for quarter 3 was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which are likely to be the start of a new trend for some years ahead of rising unemployment.

Inflation and Bank Rate – CPI has remained high during 2010. It peaked at 3.7% in April, declined to 3.1% in September (RPI 4.6%) and increased back to 3.7% in December (RPI 4.8%). Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectation that there could be a second round of quantitative easing in late 2010 or early 2011, to help support economic growth, have evaporated after the surprises of the Q3 GDP figure of +0.8% and the November Inflation Report revising the forecast for short term inflation sharply upwards.

Sector's view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

4.3 Sector's forward view

It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

the speed of economic recovery in our major trading partners - the US and EU
the danger of currency war and resort to protectionism and tariff barriers if China does not address the issue of its huge trade surplus due to its undervalued currency
the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
changes in the consumer savings ratio
the speed of rebalancing of the UK economy towards exporting and substituting imports
the potential for more quantitative easing, and the timing of this in both the UK and US, and its subsequent reversal
the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy
The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

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

APPENDIX 5 Specified and Non-Specified Investments

Specified Investments:

The idea of specified investments is to identify investments offering high security and high liquidity. All these investments should be in sterling and with a maturity of less than one year.

Schedule A

	Repayable/ Redeemable Within 12 Months	Security / Minimum Credit Rating	Capital Expend-iture?	Maximum Period	Use
Term deposits – UK government or UK LAs (i.e. local authorities as defined under section 23 of the 2003 Act) with maturities up to 1 year	Yes	High Security although LAs not credit rated	No	I year	In-house and external fund managers
Term deposits with credit rated deposit takers (banks and building societies) including callable deposits, with maturities up to 1 year	Yes	Yes - varied	No	1 year	In-house and external fund managers
Certificates of deposits issued by credit rated deposit takers (banks and building societies) up to 1 year. Custodial arrangement required prior to purchase	Yes	Yes - varied	No	1 year	Fund managers only
Money Market Funds (i.e. a collective	Yes	Yes – AAA rated	No	The period of investment	In house and by external fund

investment scheme as defined in SI 2004 No 534) These funds do not have a maturity date				may not be determined at the outset but would be subject to cashflow and liquidity requirements	managers only subject to the guidelines and parameters agreed with them
UK Government Gilts with maturities up to 1 year Custodial arrangement required prior to purchase	Yes	Government backed	No	1 year	Fund managers only subject to the guidelines and parameters agreed with them
Forward Deals with credit rated banks and building societies	Yes	Yes - varied	No	1 year	In house for administrative purposes only
Treasury Bills (Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value) Custodial arrangement required prior to purchase	Yes	Government backed	No	1 year	External fund managers only subject to the guidelines and parameters agreed with them

Non-Specified Investments

65. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a "high" credit rating. As far as this Council is concerned the risks are in relation to the value of the investments, which may rise or fall, rather than deficient credit rating.

66. A maximum of 50% will be held by the Fund Manager in non-specified investments.

Schedule B

Investment	(A) Why use it? (B) Associated risks	Repayable / Redeemable within 12 months?	Security / Minimum credit rating	Capital expend-iture?
UK Government Gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	(A) (i) Excellent credit quality. (ii) Very liquid. (iii) if held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk. (B) (i) ‘Market or interest rate risk’: Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	Yes	Government backed	No

APPENDIX 6   Approved Countries for Investments

Countries that meet our criteria 1 & 2:-

1. AAA rated:-
Canada
Denmark
Finland
France
Germany
Luxembourg
Netherlands
Norway
Singapore
Sweden
Switzerland
U.K.
U.S.A.

2. AA+
Australia
Belgium
Hong Kong

Countries that do not meet our criteria 3 & 4:-

3. AA
Japan
Kuwait
Qatar (AA S&P rating)
U.A.E

4. AA-
Italy
Saudi Arabia

APPENDIX 7 Treasury Management Policy Statement

The Council defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

APPENDIX 8   Purpose and requirements of the code

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee

APPENDIX 9 Treasury Management Scheme of Delegation

(i) Full Council

1.Approval of the Treasury Management Strategy - prior to the new financial year
2.Approval of the Investment Strategy - prior to the new financial year
3.Approval of the MRP Policy - prior to the start of the new financial year
4.Approval of any amendments required to the Strategy during the year
5.Receipt of a Mid year report on the Treasury Management Strategy, to include consideration of any recommendations of the Cabinet or Audit Committee arising from any concerns since the original approval.

(ii) Cabinet

1. Developing and determining the Treasury Management strategy, Investment Strategy and MRP policy and recommending them to full Council - prior to the start of the new financial year
2. Receipt of a Mid year report on the Treasury Management Strategy and any concerns since the original approval and making recommendations to Council as appropriate.
2. Receiving, and reviewing reports on treasury management policies, practices, activities, and performance reports (based on quarterly reporting).
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(iii) Audit Committee

1. Scrutinising the Council's Treasury Management Strategy, Investment Strategy and MRP policy, Treasury Management Policy Statement and treasury management practices and making recommendations to Cabinet and Council as appropriate.
2. Receiving and reviewing monitoring reports (based on quarterly reporting) and making recommendations as appropriate.

APPENDIX 10 The Treasury Management Role of the Section 151 Officer

Deputy Chief Executive & Director of Corporate Resources (S151 Officer)

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

Hastings Borough Council Lending List

(Updated 15 June 2010)

	Credit Rating Long	Fitch Short	Individ	Support	HBC Limit £m	Duration up to 3 Months	Months 364 days
UK Banks AAA							
Santander UK plc (Abbey National plc)	AA-	F1+	B	1	3.00	#	
Alliance & Leicester plc	AA-	F1+	B	1	3.00	#	
Barclays Bank	AA-	F1+	B	1	3.00	#	
Lloyds TSB Bank plc	AA-	F1+	C	1	3.00	#	
HSBC Bank	AA	F1+	B	1	3.00	#	#
Bank of Scotland plc	AA-	F1+	C	1	3.00	#	
UK Building Societies							
Nationwide	AA-	F1+	B	1	3.00	#	
Foreign Banks							
Australia AA+							
Australia & New Zealand Banking Group	AA-	F1+	B	1	3.00	#	
Commonwealth Bank of Australia	AA	F1+	A/B	1	3.00	#	
National Australia Bank	AA	F1+	B	1	3.00	#	
Westpac Banking Corporation	AA	F1+	A/B	1	3.00	#	
Canada AAA							
Bank of Montreal	AA-	F1+	B	1	3.00	#	
The Bank of Nova Scotia	AA-	F1+	B	1	3.00	#	
The Royal Bank of Canada	AA	F1+	A/B	1	3.00	#	
The Toronto Dominion Bank	AA-	F1+	B	1	3.00	#	
France AAA							
BNP Paribas	AA	F1+	B	1	3.00	#	
Calyon Corporate & Investment Bank	AA-	F1+	C	1	3.00	#	
Societe Generale	A+	F1+	B/C	1	3.00	#	
Germany AAA							
Deutsche Bank AG	AA-	F1+	B/C	1	3.00	#	
Netherlands AAA							
Bank Nederlandse Gemeenten	AAA	F1+	A	1	3.00	#	
Cooperatieve Centrale Boerenleenbank BA (was Rabobank International)	AA+	F1+	A	1	3.00	#	
Spain AA+							
Banco Santander	AA	F1+	A/B	1	3.00	#	
Confederacion Espanola de Cajas de Ahorros	AA-	F1+	B/C	2	3.00	#	
Switzerland AAA							
Credit Suisse	AA-	F1+	B/C	1	3.00	#	
Local Authorities						3.00	#	#

Signature

Deputy Chief Executive and Director of Corporate Resources