Agenda Item No: 8

Report to: Audit Committee

Date of Meeting: 18 January 2012

Report Title: Treasury Management and Annual Investment Strategy 2012/13, including Quarterly Monitoring Reports for 2011/12

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

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Purpose of Report

To consider the draft Treasury Management and Annual Investment Strategy and make recommendations to Cabinet and Council as appropriate, to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities. The Council has £10.5 million of debt, and investments which can fluctuate between £15million 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 (2012/13) prior to the start of the new financial year.

Recommendation(s)

1. **That Cabinet be recommended to approve the Treasury Management Strategy, MRP Policy and Annual Investment Strategy (2012/13)**

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 annual budget. Compliance with the CIPFA Code of Practice (2009) represents best practice and ensures compliance with statutory requirements.

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 2011-12

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

Period	Capital (£)	Interest (£)	Average Interest Rate (Annualised)
Quarter 1	4,335,480	50,002	1.15%
Quarter 2	6,278,446	75,525	1.20%
Quarter 3	5,504,946	59,519	1.08%
Total Investments	**16,118,872**	**185,046**	**1.14%**
Previous Year's (including external fund manager) (3 Quarters for comparison)	**17,724,063**	**104,421**	**0.59%**

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

Treasury Management Strategy for 2012/13

9. 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.

10. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (paragraphs 38-59); this sets out the

Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

11. The suggested strategy for 2012/13 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.

12. The strategy covers:

    a. treasury limits in force which will limit the treasury risk and activities of the Council

    b. Prudential and Treasury Indicators

    c. the current treasury position

    d. the borrowing requirement

    e. prospects for interest rates

    f. the borrowing strategy

    g. policy on borrowing in advance of need

    h. debt rescheduling

    i. the investment strategy

    j. creditworthiness policy

    k. policy on use of external service providers

    l. the MRP strategy

The key changes from the previous year's strategy are :-

(i) A minor relaxation of the investment criteria for short term deposits (Paragraph 50), which aligns the criteria to those of our treasury advisers.

(ii) The accommodation of the £1m deposit for 5 years with the Lloyds Bank group in respect of the Local Authority Mortgage scheme. The investment being made on the 5 January 2012 at a rate of 4.45%, whilst the matching £1m borrowing from the PWLB was at a rate of 2.02% - the difference being placed in a reserve to meet any costs arising from defaults. The Minimum Revenue Provision (MRP) Policy statement in Appendix 1 has also been revised – no annual provision is being made towards repaying the principal borrowed as the Council currently anticipates the full £1m to be repaid at the end of the scheme. The £1m of funds deposited in the nominated Local Authority Mortgage Account will not be included as part of the Treasury Management Policy limits for investment with those particular Counter Parties.

(iii) Investment returns to be lower for a longer than anticipated period.

Balanced Budget Requirement

13. 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 2012/13 TO 2014/15

14. 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.

15. 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’.

16. 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 2012/13 TO 2014/15

17. 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

18. The Council’s treasury portfolio position at 31 December 2011 comprised:-

	Source	Principal	Rate
Fixed Rate Funding	PWLB**	£7.5m	4.80% Fixed
Fixed Rate Funding	PWLB	£1.0m	2.02% Fixed
Variable Rate Funding	PWLB	£2.0m	0.69% Variable*
Other Long Term Liabilities		___	-
Total Long Term Borrowing		£10.5m	
Total Investments		(£24.4m)	
Net Investments		(£13.9m)	

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

BORROWING REQUIREMENT

19. 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

20. 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).

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

2012	0.50%
2013	0.50%
2014	1.25%
2015	2.50%

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

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

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

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

21. 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

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

Annual Average %	PWLB Borrowing Rates		
	5 year	25 year	50 year
March 2012	2.30	4.20	4.30
June 2012	2.30	4.20	4.30
Sept 2012	2.30	4.30	4.40
Dec2012	2.40	4.30	4.40
March 2013	2.50	4.40	4.50
June 2013	2.60	4.50	4.60
Sept 2013	2.70	4.60	4.70
Dec 2013	2.80	4.70	4.80
March 2014	2.90	4.80	4.90
June 2014	3.10	4.90	5.00

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

a. 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.

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

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

d. 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

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

f. Rates are expected to gradually increase during next year so it should therefore be advantageous to time any new borrowing, if any is undertaken, for the start of the year.

24. 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:

   a. 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

   b. 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	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimated out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Actual external debt (gross)	9,500	10,500	10,500	10,500	10,500
Cash balances	(19,642)	(14,000)	(13,398)	(12,915)	(14,333)
Net debt	(7,642)	(3,500)	(2,898)	(2,415)	(3,833)

25. This Council currently anticipates net investments (after deducting cash balances), of some £3.5m at the 31 March 2012.

26. 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.

27. 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.

28. 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.

29. However, short term savings by avoiding new long term external borrowing in 2012/13 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.

30. Against this background caution will be adopted with the 2012/13 treasury operations.

Policy on borrowing in advance of need

31. 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.

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

    a. 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.

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

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

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

    e. consider the appropriate funding period.

    f. 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

33. 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.

34. 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.

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

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

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

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

Minimum Revenue Provision (MRP)

36. 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.

37. 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 2012/13 is estimated at £727,000 of which £496,000 is the statutory charge to revenue that remains within the accounts (the remaining £231k is reversed out of the accounts and thus does not impact on the Council tax payer).

ANNUAL INVESTMENT STRATEGY

Investment Policy

38. The Council will have regard to the government'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.

39. 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.

40. 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.

41. 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. The £1m of funds deposited in the nominated Local Authority Mortgage Account will not be included as part of the Treasury Management Policy limits for investment with those particular Counter Parties.

Creditworthiness Policy

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

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

43. 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.

44. 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 (but HBC will only invest for up to 1 year)
- 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

45. 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.

46. 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.

47. 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.

48. 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. The maximum investment in any non UK country is not to exceed £10m.

49. The Council's policy of only investing in institutions with an A+ or better long term rating has been amended to an A rating or better to align with Sector's criteria and thus enables the Council to use banks such as Barclays, with such investments limited to a 3 month period.

50. The Council, following the return of the Foreshore Trust has expanded the lending list to include CCLA – a company owned by its investors (Churches, Charities, Local authorities).

Investment Strategy

51. In-house investments (at 31 December 2011) were:-

	Amount
Lloyds TSB (Term Deposit)	£ 5,000,000
Nat. West (60 Day Notice Account)	£ 5,000,000
Commonwealth Bank of Australia	£ 5,000,000
Clydesdale (30 Day Notice Account	£ 3,000,000
Nationwide (Term Deposit)	£ 3,000,000
Barclays (Term Deposit)	£ 2,000,000
Santander (Instant Access Account)	£ 1,459,934
Total Investments	£24,459,934

It should be noted that Council Tax is mainly payable in the first 10 months of the year whilst precepts are payable throughout the remaining months of the year. The year end balance is expected to be in the region of £15m.

Interest rate outlook: Bank Rate has been unchanged at 0.5% since March 2009, but is forecast to commence rising in quarter 2 of 2013 and then to increase steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows: -

2012 0.50%

2013 0.50%

2014 1.25%

2015 2.50%

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

53. The Council will avoid locking into longer term deals 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 (up to 1 year) and within the risk parameters set by this council.

54. For 2011/12 the Council's revised budget estimates an investment interest return of 1.00%, and in 2012/13 the return is budgeted at 0.80%.

55. 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

56. 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

57. 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

58. Please see Appendix 9.

Role of the Section 151 Officer

59. Please see Appendix 10.

RISK MANAGEMENT

60. 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.

61. 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

62. The Council generally has investments in the year of between £16m and £25m at any one time, and longer term borrowings of £10.5m. It has a gross budget of some £97 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

63. 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)

Officer to Contact

Peter Grace
pgrace@hastings.gov.uk
01424 451503

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 2012/13

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.

The Council participates in LAMS using the cash backed option. The mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

Repayments included in finance leases are applied as MRP.

APPENDIX 2 Interest Rate Forecasts

The data below shows Sectors forecast

Sector Interest rate forecast – 1.12.11

Sector's Interest Rate View	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 month LIBID	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 month LIBID	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%

APPENDIX 3 Prudential Indicators

PRUDENTIAL INDICATOR	2010/11	2011/12	2012/13	2013/14	2014/15
(1). EXTRACT FROM BUDGET	£'000	£'000	£'000	£'000	£'000
	Actual	Probable Outturn	Estimate	Estimate	Estimate
Capital Expenditure	£9,137	£2,637	£5,330	£3,878	£ 905
Ratio of financing costs to net revenue stream	1.0%	0.6%	0.7%	0.4%	-0.1%
Net borrowing requirement	£1,399	£ 602	£ 483	£0	£0
Capital Financing Requirement as at 31 March	£15,618	£15,535	£15,292	£14,719	£14,244
Annual change in Capital Financing Requirement	£ 753	£ -83	£-244	£-573	£- 496
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	£2.38	£0.51	£2.26	£3.44	£3.43

PRUDENTIAL INDICATOR	2010/11	2011/12	2012/13	2013/14	2014/15
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000	£'000	£'000
	Actual	Probable Outturn	Estimate	Estimate	Estimate
Authorised Limit for external debt -					
borrowing	£20,000	£20,000	£20,000	£20,000	£20,000
other long term liabilities	£10,000	£10,000	£10,000	£10,000	£10,000
TOTAL	£30,000	£30,000	£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	£10,000	£10,000	£10,000	£10,000	£10,000
TOTAL	£30,000	£30,000	£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 – LAMS Scheme	£0	£1,000	£1,000	£1,000	£1,000

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

4.1. Global economy

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

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

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

The US economy offers little to lift spirits. With the next Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started “Operation Twist” in an effort to re-ignite the economy in which growth is stalling. High levels of consumer indebtedness, unemployment and a moribund housing market are weighing heavily on consumer confidence and so on the abiltity to generate sustained economic growth.

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

4.2 UK economy

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

Economic Growth. GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forcecast for 2012 have been 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 embarked on a second round of Quantitive Easing during the year to stimulate ecomnomic activity.

Unemployment. With the Government's debt reduction strategy impacting on the economy the trend of steadily increasing unemployment looks set to continue and there are limited prospects for any improvement in 2012 given the deterioration of growth prospects.

Inflation and Bank Rate. For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation standing at 5.2% at the start of quarter 4 2011. The Treasury remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

AAA rating. The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy 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. This credit position has ensured that the UK government is able to fund itself at historically low levels and with the safe haven status from Eurozone debt also drawing in external investment the pressure on rates has been down, and looks set to remain so for some time.

4.3 Forward view

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

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

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

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

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

APPENDIX 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	Yes	Yes – AAA rated	No	The period of	In house and by external

(i.e. a collective investment scheme as defined in SI 2004 No 534) These funds do not have a maturity date				investment may not be determined at the outset but would be subject to cashflow and liquidity requirements	fund 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

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.

There is no intention to invest in Non- Specified Investments without taking specialist advice first.

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:-

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

2. AA+

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
Spain

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.

APPENDIX 11

Lending List

HASTINGS BOROUGH COUNCIL LENDING LIST	Fitch Credit Rating				Limit	Sector's Suggested Duration
(updated 30-12-2011)	L Term	S Term	Individual	Support		
U.K - BANKS	**AAA**					
Bank of New York Mellon (International) Ltd	AA-	F1+	-	1	£5M	G - 3 mths
Barclays Bank plc	A	F1	a	1	£2M	G - 3 mths
Co-operative Bank Plc	A-	F2	a-	3		£500k Max overnight/weekend only
Credit Suisse International	A	F1	-	1	£5M	G - 3 mths
HFC Bank Ltd	AA-	F1+	-	1	£5M	G - 3 mths
HSBC Bank plc	AA	F1+	aa-	1	£5M	G - 3 mths
MBNA Europe Bank	A	F1	-	1	£3M	G - 3 mths
Santander UK plc	A+	F1	a+	1	£3M	G - 3 mths
Cater Allen	-	-	-	-	£3M	G - 3 mths
Standard Chartered Bank	AA-	F1+	aa-	1	£5M	G - 3 mths
Lloyds Banking Group plc	**A**	**F1**	**bbb**	**1**		
Bank of Scotland Plc	A	F1	-	1	£5M	B - 12 mths
Lloyds TSB Bank Plc	A	F1	bbb	1	£5M	B - 12 mths
Royal Bank of Scotland Group plc	**A**	**F1**	**bbb**	**1**		
National Westminster Bank Plc	A	F1	-	1	£5M	B - 12 mths
The Royal Bank of Scotland Plc	A	F1	bbb	1	£5M	B - 12 mths
U.K - BUILDING SOCIETIES	**AAA**					
Nationwide BS	A+	F1	a+	1	£3M	G - 3 mths
Australia	**AAA**					
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	£5M	G - 3 mths
Commonwealth Bank of Australia	AA	F1+	aa	1	£5M	G - 3 mths
National Australia Bank Ltd	AA	F1+	aa	1	£5M	G - 3 mths
Westpac Banking Corporation	AA	F1+	aa	1	£5M	G - 3 mths
Canada	**AAA**	**-**	**-**	**-**	**£5M**	
Bank of Montreal	AA-	F1+	aa-	1	£5M	G - 3 mths
Bank of Nova Scotia	AA-	F1+	aa-	1	£5M	G - 3 mths
Canadian Imperial Bank of Commerce	AA-	F1+	aa-	1	£5M	G - 3 mths
Royal Bank of Canada	AA	F1+	aa	1	£5M	G - 3 mths
Toronto Dominion Bank	AA-	F1+	aa-	1	£5M	G - 3 mths
Denmark	**AAA**	**-**	**-**	**-**	**£5M**	
Danske Bank As	A	F1	a	1	£2M	G - 3 mths
Finland	**AAA**	**-**	**-**	**-**	**£5M**	
Nordea Bank Finland plc	AA-	F1+	aa-	1	£5M	G - 3 mths
HASTINGS BOROUGH COUNCIL LENDING LIST	**Fitch Credit Rating**				**Limit**	**Sector's Suggested Duration**

(updated 30-12-2011)	L Term	S Term	Individual	Support		
BNP Paribas	A+	F1+	a+	1	£5M	G - 3 mths
CALYON Corporate and Investment Bank	A+	F1+	-	1		
Credit Industriel et Commercial	A+	F1+	-	1	£5M	G - 3 mths
Credit Agricole SA	A+	F1+	-	1	£5M	G - 3 mths
Societe Generale	A+	F1+	a-	1		
Germany	**AAA**	**-**	**-**	**-**	**£5M**	
Deutsche Bank AG	A+	F1+	a	1	£5M	G - 3 mths
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	-	1	£3M	G - 3 mths
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	-	1	£3M	G - 3 mths
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	£5M	G - 3 mths
Hong Kong	**AA+**	**-**	**-**	**-**	**£5M**	
Hong Kong and Shanghai Banking Corporation Ltd	AA	F1+	aa	1	£5M	G - 3 mths
Luxembourg	**AAA**	**-**	**-**	**-**	**£5M**	
Banque et Caisse d'Epargne de l'Etat	-	-	-	-	£5M	G - 3 mths
Clearstream Banking	AA	F1+	aa	1	£5M	G - 3 mths
Netherlands	**AAA**	**-**	**-**	**-**	**£5M**	
Bank Nederlandse Gemeenten	AAA	F1+	-	1	£5M	G - 3 mths
Cooperatieve Centrale Raiffeisen Boerenleenbank BA	AA	F1+	-	1	£5M	G - 3 mths
ING Bank NV	A+	F1+	a	1	£3M	G - 3 mths
Norway	**AAA**					
DnB NOR Bank	A+	F1	a+	1	£3M	G - 3 mths
Singapore	**AAA**					
DBS Bank Ltd	AA-	F1+	aa-	1	£5M	G - 3 mths
Oversea Chinese Banking Corporation Ltd	AA-	F1+	aa-	1	£5M	G - 3 mths
United Overseas Bank Ltd	AA-	F1+	aa-	1	£5M	G - 3 mths
Sweden	**AAA**					
Nordea Bank AB	AA-	F1+	aa-	1	£5M	G - 3 mths
Skandinaviska Enskilda Banken AB	A+	F1	a+	1	£3M	G - 3 mths
Svenska Handelsbanken AB	AA-	F1+	aa-	1	£5M	G - 3 mths
Switzerland	**AAA**	**-**	**-**	**-**	**£5M**	
Credit Suisse	A	F1	a	1	£2M	G - 3 mths
U.S.A	**AAA**	**-**	**-**	**-**	**£5M**	
Bank of New York Mellon, The	AA-	F1+	aa-	1	£5M	G - 3 mths
JP Morgan Chase Bank NA	AA-	F1+	aa-	1	£5M	G - 3 mths
Wells Fargo Bank NA	AA-	F1+	aa-	1	£5M	G - 3 mths

UK Local Authorities	AAA				£5M per LA	
CCLA (COIF Charities Deposit Fund)	AAA				£5M	