Agenda Item No: 7

Report to: Audit Committee

Date of Meeting: 16 January 2013

Report Title: Treasury Management and Annual Investment Strategy 2013/14, including Quarterly Monitoring Reports for 2012/13

Report By: Peter Grace
Head of Finance

Purpose of Report

To consider the draft Treasury Management and Annual Investment Strategy and draw any concerns or 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 £28 million 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 (2013/14) prior to the start of the new financial year.

Recommendation(s)

1. **The Audit committee recommend that Cabinet approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2013/14)**

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 represents best practice and ensures compliance with statutory requirements.

Introduction

1. The CIPFA Code of Practice on Treasury Management was adopted by this Council on 15th February 2010 and this Council fully complies with its requirements and subsequent revisions.

2. The purpose and requirements of the Code are identified as 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 Chief Finance Officer 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. 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 2012-13

7. The performance achieved for the last three quarters in respect of investment returns, excluding the £1 million investment in respect of the Local Authority Mortgage Scheme (LAMS), are detailed below:-

Period	Capital (Annualised) (£)	Interest (£)	Average Interest Rate (Annualised)
Quarter 1	5,250,397	63,253	1.20%
Quarter 2	5,635,213	76,042.	1.35%
Quarter 3 (excludes December 2012)	3,817,773	52,531	1.38%
Total Investments	14,703,383	191,826	1.30%
Previous Year's (3 Quarters for comparison)	16,118,872	185,046	1.14%

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

Treasury Management Strategy for 2013/14

9. The Local Government Act 2003 (the Act) and supporting regulations require 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 49-65); 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 2013/14 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) The accommodation of an additional £1m deposit for 5 years with the Lloyds Bank group in respect of the Local Authority Mortgage scheme. (The investment is expected to be made in the coming weeks at a rate of 2.7%, whilst the matching £1m borrowing from the PWLB is at an expected rate of 1.7% - 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 additional £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 counterparties.

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

(iii) CIPFA have issued an amendement to the Prudential Code 2011 to replace the net debt indicator with a gross debt indicator. CIPFA require this amendment to be implimented from 2013/14. The Treasury Management Code Guidance Notes 2011 have also been amended to delete the treasury indicator for gross and net debt, rather than amend it. The Prudential indicators have been amended accordingly.

Balanced Budget

13. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to calculate its Council Tax requirement. In particular, Section 31 requires a local authority in calculating the Council Tax 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 2013/14 TO 2015/16

14. The treasury indicators for borrowing activity are the Operational Boundary and the Authorised Limit for external debt.

15. The Operational Boundary is the limit beyond which external debt is not normally expected to exceed.

16. The Authorised Limit, which is a limit beyond which external debt is prohibited, needs to be set or revised by the full Council, it is a statutory duty under Section 3 of the Act and supporting regulations. Essentially the Council is required 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 and operational boundary are to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

18. Another key indicator is the CFR (Capital Financing Requirement). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s underlying borrowing need. Any capital expenditure which has not been funded from grants, revenue, reserves or capital receipts will increase the CFR.

19. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) reduces the balance.

20. The Council needs to ensure that its total debt does not exceed the CFR.

21. Details of the above prudential indicators can be found in Appendix 3 of this report.

PRUDENTIAL AND TREASURY INDICATORS FOR 2012/13 TO 2014/15

22. 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

23. The Council’s treasury portfolio position at 31 November 2012 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	0.54% Variable*
Other Long Term Liabilities		___	-
Total Long Term Borrowing		£10.5m	
Total Short Term Borrowing		£4.0m	
Total Investments		(£26m)	
Net Investments		(£11.5m)	

* rate at 29th October (rates change every 3 months)
** PWLB - Public Works Loan Board

BORROWING REQUIREMENT

24. 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

25. 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).

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

    - 2013 0.50%
    - 2014 0.50%
    - 2015 0.75%
    - 2016 1.75%

27. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

28. The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

29. This challenging and uncertain economic outlook has several key treasury management implications:

    - The Eurozone sovereign debt difficulties provide a clear indication of high 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 2013/14 and beyond;
    - Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
    - There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

30. A detailed view of the current economic background is contained within Appendix 4 to this report.

BORROWING STRATEGY

31. The Council registered for the certainty rate earlier in the year which has given a 20 basis point reduction in the average rate of borrowing. The Sector forecast for the Public Works Loan Board (PWLB) new borrowing rate is as follows: -

Annual Average %	**PWLB Borrowing Rates (including certainty rate adjustment)**		
	5 year	**25 year**	**50 year**
Dec 2012	1.50	3.70	3.90
March 2013	1.50	3.80	4.00
June 2013	1.50	3.80	4.00
Sept 2013	1.60	3.80	4.00
Dec 2013	1.60	3.80	4.00
March 2014	1.70	3.90	4.10
June 2014	1.70	3.90	4.10
Sept 2014	1.80	4.00	4.20
Dec 2014	2.00	4.10	4.30
March 2015	2.20	4.30	4.50
June 2015	2.30	4.40	4.60
Sept 2015	2.50	4.60	4.80
Dec 2015	2.70	4.80	5.00
March 2016	2.90	5.00	5.20

32. 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 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. The Council need to be alert to opportunities particularly at the start of the year.

33. 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	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Estimated out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
External debt (gross) at 1st April	10,500	10,876	11,500	11,500	11,500
Expected change in debt	0	624	0	0	0
Other Long term liabilities at 1st April	376	0	0	0	0
Actual Gross Debt at 31st March	10,876	11,500	11,500	11,500	11,500
CFR	16,523	17,112	16,524	16,012	15,501
Under/(Over) borrowed	5,647	5,612	5,024	4,512	4,001

34. This Council currently anticipates to be under borrowed by £5.6million at 31 March 2013. This means the Council could effectively increase its borrowing by £5.6 million and still be within prudential limits.

35. 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.

36. 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.

37. 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.

38. However, short term savings by avoiding new long term external borrowing in 2013/14 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.

39. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

41. Against this background caution will be adopted with the 2013/14 treasury operations.

Policy on borrowing in advance of need

42. 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.

43. 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

44. 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.

45. 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.

46. 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 xx above

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

Minimum Revenue Provision (MRP)

47. 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.

48. 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 2013/14 is

estimated at £588,000 of which £511,000 is the statutory charge to revenue that remains within the accounts (the remaining £77k is reversed out of the accounts and thus does not impact on the Council tax payer).

ANNUAL INVESTMENT STRATEGY

Investment Policy

49. The Council will have regard to the government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

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

50. 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.

51. 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.

52. 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.

53. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

54. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour codings which show the varying degrees of suggested creditworthiness.

Creditworthiness Policy

55. 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, Moody's and Standard and Poor's, 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

56. 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.

57. 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

58. 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 Moody's 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.

59. 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.

60. 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.

61. The Council 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.

62. The Local Authority Mortgage Scheme (LAMS) – The Council is currently participating in the cash backed mortgage scheme which requires the Council to place a matching five year deposit to the life of the indemnity. This investment is an integral part of the policy initiative and is outside the criteria above.

Investment Strategy

In-house investments (at 27 November 2012) were:-

	Amount	Rate %	Start Date	End date
Lloyds TSB (Term Deposit)	£ 5,000,000	3	16/04/2012	11/04/2013
Nat. West (12 Month unbreakable)	£ 5,000,000	2.4	22/08/2012	21/08/2013
Credit Industriel et Commercial (CD)	£ 1,000,000	0.45	15/11/2012	15/02/2013
Landesbank Hessen-Thueringen Girozentrale (Helaba) (CD)	£ 3,000,000	0.47	15/11/2012	15/02/2013
LLOYDS LAM	£ 1,000,000	4.45	05/01/2012	10/01/2017
National Australian Bank	£ 5,000,000	0.32	17/09/2012	17/12/2013
Nationwide (Term Deposit)	£ 3,000,000	0.45	16/10/2012	16/01/2013
Nordea Bank AB (CD)	£ 3,000,000	0.47	10/10/2012	9/01/2013
Total Investments	£26,000,000			

Short terms loans (at 27 November 2012)

	Amount	Rate %	Start date	End date
Hammersmith & Fulham Council	£4,000,000	0.27	22/11/2012	17/12/2013

The year end balance is expected to be in the region of £17m.

63. 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.

64. For 2012/13 the Council's revised budget estimates an investment interest return of 1.30%, and in 2013/14 the return is budgeted at 1.00%.

65. 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

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

Policy on use of external service providers

67. 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

68. Please see Appendix 9.

Role of the Section 151 Officer

69. Please see Appendix 10.

RISK MANAGEMENT

70. 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.

71. 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.

72. The inclusion within the investment strategy for the use of Certificates of Deposit enables the Council to invest in institutions that it would otherwise not have access to. This also enables the Council to move money away from the Eurozone should credit ratings drop significantly or look likely to do so.

ECONOMIC/FINANCIAL IMPLICATIONS

73. The Council generally has investments in the year of between £15m and £28m at any one time, and longer term borrowings of £10.5m. It has a gross budget of some £98 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

74. 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.

75. 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 Chief Finance Officer 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
Local People's Views	No

Background Information

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 2011)
CIPFA - The Prudential Code (Revised second edition 2011)

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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 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 - 2013-2016

Sector's Interest Rate View	Now	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.40%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%	1.90%
6 Month LIBID	0.56%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%	2.20%
12 Month LIBID	0.92%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%	2.40%
5yr PWLB Rate	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yr PWLB Rate	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yr PWLB Rate	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yr PWLB Rate	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
Bank Rate															
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.66%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.66%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.64%	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.64%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	3.88%	4.00%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	3.88%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.04%	4.10%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.04%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

APPENDIX 3 Prudential Indicators

PRUDENTIAL INDICATOR	2011/12	2012/13	2013/14	2014/15	2015/16
(1). EXTRACT FROM BUDGET	£'000	£'000	£'000	£'000	£'000
	Actual	Probable Outturn	Estimate	Estimate	Estimate
Capital Expenditure	£3,774	£3,326	£8,280	£1,452	£ 1,956
Ratio of financing costs to net revenue stream	0.5%	0.6%	0.8%	0.4%	-0.1%
Net borrowing requirement (excluding LAMS)	£589	£ 0	£ 3,524	£0	£0
Capital Financing Requirement as at 31 March	£16,523	£17,112	£16,524	£16,012	£15,501
Annual change in Capital Financing Requirement	£ 905	£ 589	£-588	£-511	£- 511
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	£2.70	£3.77	£13.57	£7.94	£25.24

PRUDENTIAL INDICATOR	2011/12	2012/13	2013/14	2014/15	2015/16
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000	£'000	£'000
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	£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
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	£1,000	£2,000	£2,000	£2,000	£2,000

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

The Global economy

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4. The government in its Autumn Statement is anticipating negative growth in 12/13.

The Eurozone sovereign debt crisis has abated somewhat following the ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request and so surrendering its national sovereignty to IMF supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the time frame for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP i.e. unsustainably high. The question remains as to how much damage a Greek exit would do and whether contagion would spread to cause Portugal and Ireland to also leave the Euro, though the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.
The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it may be heading for a hard landing rather than a gradual slow down.

The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone, our biggest trading partner, has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. It will be important for the Government to retain investor confidence in UK gilts so there is little room for it to change course other than to move back the timeframe.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years. Moody's has stated that it will review the UK's Aaa rating at the start of 2013.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate were to become prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;

inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; 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 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 are unlikely to be achieved;

the risk of the UK's main trading partners, in particular the EU and US, falling into recession;

stimulus packages failing to stimulate growth;

elections due in Germany in 2013;

potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China:

the potential for action to curtail the Iranian nuclear programme:

the situation in Syria deteriorating and impacting other countries in the Middle East:

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

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. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields

- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held
- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth
- The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's Aaa rating at the start of 2013).

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

	Security / Minimum Credit Rating	Maximum Maturity Period
Local authorities	N/A	1 year
DMADF – UK Government	N/A	1 year
Money market funds	AAA	Liquid
Term deposits with banks and building societies	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
Certificates of deposits (CDs) issued by credit rated deposit takers (banks and building societies)	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
UK Government Gilts	UK sovereign rating	364days
UK Government Treasury Bills	UK sovereign rating	364days

Non-Specified Investments

These are any investments which do not meet the specified investment criteria.
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	Security / Minimum credit rating	(A) Why use it? (B) Associated risks
UK Government Gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	Government backed	(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.

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+
Hong Kong

3. Countries that do not meet our criteria :-

Belgium	AA
Japan	AA-
Kuwait	AA
UAE	AA
Saudi Arabia	AA-
Spain	BBB-
Italy	BBB+

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).
.

(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

Head of Finance (S151 Officer)

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

APPENDIX 11

HASTINGS BOROUGH COUNCIL LENDING LIST	Fitch Credit Rating					
(updated 23-11-2012)	L Term	S Term	Indiv	Support	Limit	Up to 3 months
U.K	**AAA - Negative**					
Bank of New York Mellon (International) Ltd	AA-	F1+	-	1	£5M	G - 3 mths
Co-operative Bank Plc	BBB+	F2	bbb+	3	**500k**	£500k Max overnight/weekend only
Credit Suisse International	A	F1	-	1	£5M	G - 3 mths
HSBC Bank plc	AA	F1+	aa-	1	£5M	G - 3 mths
MBNA Europe Bank	A	F1	-	1	**0**	G - 3 mths
Standard Chartered Bank	AA-	F1+	aa-	1	£5M	G - 3 mths
Sumitomo Mitsui Banking Corporation Europe Ltd	A+	F1+	a+	1	**0**	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
Nationwide BS	A+	F1	a+	1	**£3M**	G - 3 mths
Australia - £10M Country Limit	**AAA - Stable**					
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 - £10M Country Limit	**AAA - Stable**				£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
National Bank of Canada	A+	F1	a+	1	**£3M**	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
Finland - £10M Country Limit	**AAA - Stable**				£5M	
Nordea Bank Finland plc	AA-	F1+	aa-	1	£5M	G - 3 mths

HASTINGS BOROUGH COUNCIL LENDING LIST	Fitch Credit Rating					
(updated 23-11-2012)	L Term	S Term	Indiv	Support	Limit	Up to 3 months
France - £10M Country Limit	**AAA - Negative**				£5M	
BNP Paribas	A+	F1+	a+	1	**£3M**	G - 3 mths
CALYON Corporate and Investment Bank	A+	F1+	a+	1	**0**	G - 3 mths
Credit Industriel et Commercial	A+	F1+	-	1	**£3M**	G - 3 mths
Germany - £10M Country Limit	**AAA - Stable**				£5M	
Commerzbank AG	A+	F1+	bbb-	1	**0**	
Deutsche Bank AG	A+	F1+	a	1	**£3M**	G - 3 mths
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	-	1	**£3M**	G - 3 mths
Landesbank Berlin AG	A+	F1+	bbb-	1	**£3M**	G - 3 mths
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	-	1	**0**	G - 3 mths
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	£5M	G - 3 mths
Hong Kong - £10M Country Limit	**AA+ - Stable**				£5M	
Hong Kong and Shanghai Banking Corporation Ltd	AA+	-	-	-	£5M	G - 3 mths
Luxembourg - £10M Country Limit	**AAA - Stable**				£5M	
Banque et Caisse d'Epargne de l'Etat	-	-	-	-	£5M	G - 3 mths
Clearstream Banking	AA	F1+	aa	1	£5M	G - 3 mths
Netherlands - £10M Country Limit	**AAA - Stable**				£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 - £10M Country Limit	**AAA - Stable**					
DnB NOR Bank	A+	F1	a+	1	**£3M**	G - 3 mths
Singapore - £10M Country Limit	**AAA - Stable**					
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 - £10M Country Limit	**AAA - Stable**					
Nordea Bank AB	AA-	F1+	aa-	1	£5M	G - 3 mths
Skandinaviska Enskilda Banken AB	A+	F1	a+	1	**£3M**	G - 3 mths
Swedbank AB	A+	F1	a+	1	**£3M**	G - 3 mths
Svenska Handelsbanken AB	AA-	F1+	aa-	1	£5M	G - 3 mths
Switzerland - £10M Country Limit	**AAA - Stable**				£5M	
Credit Suisse	A+	F1+	-	1	**£3M**	G - 3 mths
U.S.A - £10M Country Limit	**AAA - Negative**				£5M	
Bank of America, N.A.	AAA	F1+	-	1	£5M	G - 3 mths
Bank of New York Mellon, The	AA-	F1+	aa-	1	£5M	G - 3 mths
HSBC Bank USA, N.A.	AA	F1+	a-	1	£5M	G - 3 mths
JP Morgan Chase Bank NA	A+	F1	a+	1	**£3M**	G - 3 mths
Northern Trust Company	AA-	F1+	aa-	5	£5M	G - 3 mths
State Street Bank and Trust Company	A+	F1+	a+	1	**£3M**	G - 3 mths
Wells Fargo Bank NA	AA-	F1+	aa-	1	£5M	G - 3 mths
UK Local Authorities	**AAA**				£5M	**12 mths**
CCLA	AAA				£5M	**Call Account**