Item 6

North York Moors National Park Authority

26 March 2012

Treasury Management and The Prudential Code For Capital Finance
Report of the Treasury

1. **Purpose of the Report**

1.1 To approve an updated Annual Treasury Management Strategy and Annual Investment Strategy for 2012/13, and Prudential Indicators for the financial years 2012/13 – 2014/15.

2. **Background**

2.1 Treasury Management 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 these activities and the pursuit of optimum performance consistent with those risks."

2.2 Members will be aware that each February Performance Monitoring and Management Committee considers reports on Treasury Management and the Prudential Code Indicators for borrowing. The function of Treasury Management is undertaken for the Authority by North Yorkshire County Council via a service level agreement. John Raine (Principal Accountant – Capital and Treasury Management at NYCC) attended the meeting and answered Members questions. The Committee resolved that the report be recommended to Authority for approval at the March meeting.

2.3 On Investments, the County Council pools the monies it invests on behalf of the Authority with its own funds and those of other organisations for which it undertakes a treasury management service. The approach adopted, consistent with the policy statement of this Authority, covered later in this report, is to ensure the security of capital and liquidity of investments. The Authority will also aim to seek the highest return on its investments provided that proper levels of security and liquidity are achieved. The approach to managing the risks associated with these activities is set out in the requirements of the various codes described in the report. The current approved lending list of banks and organisations that the Treasurer can invest in is included at the end of this report.

2.4 On borrowing as at the end of January 2012, the Authority does not have any loans in place and has not needed to borrow to fund capital projects. Despite not having taken out loans, the possibility of borrowing is an option that the Authority has ensured is available to it when making decisions on the optimum way to finance capital purchases. The indicators proposed in this report continue the practice of identifying the probable costs of replacing equipment over the coming years (e.g. ranger vehicles, photocopiers, IT Equipment etc.) and therefore establishing the necessary parameters to allow a decision to be taken to borrow funds if that proves to be the optimum solution. Nothing in the report commits the Authority to any decision to borrow funds.

2.5 The Authority is required to

(a) approve an **Annual Treasury Management Strategy (ATMS)** for 2012/13;
(b) approve an **Annual Investment Strategy** for 2012/13;
(c) approve a **Minimum Revenue Provision Policy** for 2012/13; and
(d) approve an updated set of **Prudential Indicators** for the period 2012/13 to 2014/15.

2.6 In doing so, it must have regard to the following guidance, both of which have been adopted previously by the Authority:

- **CIPFA Code of Practice on Treasury Management in the Public Services** which was originally issued in 2001 and subsequently updated in November 2009 and adopted by the Authority on 15 February 2010.
- **CIPFA Prudential Code for Capital Finance in Local Authorities** which was introduced from 1 April 2004. This Code was also updated in November 2009 and adopted by the Authority on 15 February 2010.

2.7 Both the Code of Practice on Treasury Management and the Prudential Code have again been updated in November 2011 following recent developments in the market place and the introduction of the Localism Act. Where appropriate these changes have been reflected in this report. Although these changes do not have significant impact on day to day Treasury Management activities, the Performance Monitoring & Management Committee is asked to recommend the Authority adopts the revised Code issued in November 2011.

2.8 In addition to the two CIPFA Codes referred to above, the Government (Department of Communities and Local Government) issues statutory guidance on (i) Local Government Investments and (ii) Minimum Revenue Provision (for debt repayment) to which the Authority must have regard. This statutory guidance was revised in November 2009 and again with effect from 1 April 2012.

2.9 The combined effect of these Codes and their relevant Regulations is that the Authority has to have in place by the start of the new financial year the following:

(a) An up to date Treasury Management Policy Statement;
(b) An Annual Treasury Management and Investment Strategy Statement and Minimum Revenue Provision Policy.

2.10 As noted above, the Treasury Management arrangements of the Authority are currently provided under contract by North Yorkshire County Council. The County Council is required (under this contract) to comply with the terms of this Authority's approved Treasury Management Policy Statement and Annual Treasury Management Strategy.

2.11 Members should bear in mind that the Authority’s Treasurer is also Treasurer of North Yorkshire County Council and is responsible for both the County Council’s and the National Park Authority’s treasury management policies and strategies.

3. Treasury Management Policy Statement

3.1 The CIPFA Code of Practice on Treasury Management (as updated in 2011) requires the Authority to approve:

(a) a **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of its treasury management activities.

(b) suitable **Treasury Management Practices** (TMPs) setting out the manner in which the Authority will seek to activitate the policies and objectives and prescribing how it will manage and control these activities.

3.2 Based on the requirements detailed in **paragraph 3.1(a)** above, a **Treasury Management Policy Statement** stating the Authority's policies and objectives of its treasury management activities is set out below and no changes are required.

3.3 The Authority defines the policies and objectives of its treasury management activities as follows:

(a) treasury management is 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 these activities, and the pursuit of optimum performance consistent with these risks.

(b) the successful identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

(c) that effective treasury management will provide support towards the achievement of the business and service objectives of the Authority. The Authority is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

3.4 As emphasised in the revised 2011 Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the Authority and officers of both this Authority and North Yorkshire County Council involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.5 As referred to in **paragraph 3.1(b)** above, the CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) setting out the manner in which the Authority will seek to achieve these policies and objectives, and prescribing how it will manage these activities. The Code recommends twelve different TMPs.

3.6 As the Treasury Management activities of the Authority are carried out by North Yorkshire County Council, the approach used in previous years has been for the Authority to adopt the TMPs used by North Yorkshire County Council to govern their own Treasury Management activities. The North Yorkshire County Council TMPs have recently been updated in the light of new Codes from CIPFA and Statutory Guidance from the Government.

3.7 A copy of the County Council's TMPs are available to Members on request.

3.8 The County Council's updated TMPs will however be submitted to a future meeting of the Performance Monitoring and Management Committee for consideration in order to discharge their scrutiny responsibility for Treasury Management.

4. **CIPFA Prudential Code For Capital Finance In Local Authorities**

4.1 Under the terms of the Local Authorities (Capital Finance and Accounting) Regulations 2003, the Authority must comply with the CIPFA Prudential Code on Capital Finance in Local Authorities as updated in 2011. This requires the Authority to determine affordable borrowing limits calculated in accordance with the Code.

5. **Local Authority Investments and Annual Investment Strategy**

5.1 Under Section 15 (1) (a) of the Local Government Act 2003, the Authority is required to have regard to Investment Guidance issued by the Secretary of State in respect of the investment of cash funds. Updated with effect from 1 April 2012 this Guidance on Local Government Investments requires an **Annual Investment Strategy (AIS)** to be approved by Members.

5.2 In terms of an **Annual Investment Strategy** for the National Park Authority, the current contractual arrangements with North Yorkshire County Council for the investment of surplus cash balances mean that the Authority can use the AIS adopted by the County Council on 31 January 2012. **As a result there is no need to adopt a separate document as part of the Annual Treasury Management report**.

5.3 A copy of the County Council's current AIS is available to members on request, and a copy will be available at the meeting.

5.4 The County Council's current AIS will however be submitted to a future meeting of the Performance Monitoring and Management Committee for consideration in order to discharge their scrutiny responsibility for Treasury Management.

6. **Annual Treasury Management Strategy 2012/13**

6.1 One of the requirements of the CIPFA Code of Practice (updated 2011) is that an annual Treasury Management Strategy is considered and approved for each financial year.

The Strategy attached as **Appendix 1** includes:

- The Treasury Limits in force which will limit the treasury risk and activities of the Authority:

- Prudential Indicators.
- The current treasury position.
- The Borrowing Requirement and Borrowing Limits.
- Borrowing Policy.
- Prospects for interest rates.
- The Borrowing Strategy.
- Minimum Revenue Provision Policy.
- Annual Investment Strategy.
- Other treasury management issues.

The Treasurer will report to the Authority, if and when necessary during the year, on any changes to this Annual Strategy arising from the use of operational leasing or any other innovative methods of funding.

7. Approved Lending List

7.1 The approved Lending List of Organisations (counterparties) to which the Authority may make investments, together with the maximum sum at any time that can be placed with each, is outlined in the County Council's Treasury Management Practices (TMPs) and Treasury Management Policy Statement (TMPS) as covered by the contractual arrangements with the County Council.

7.2 Any changes to the approved Lending List are made by the Treasurer under delegated powers and reported to the County Council's Executive and to the Authority as part of the reporting arrangements in **paragraph 8.2.**

7.3 The Lending List of the County Council for the 2012/13 Treasury Management and Investment Strategy is detailed in the **Schedule** to **Appendix 1** (Treasury Management Strategy Statement 2012/13).

7.4 The criteria for monitoring and assessing organisations to which the Authority may make investments are incorporated into the detailed Treasury Management Practices that support the Treasury Management Policy Statement mentioned above. Applying these criteria enables the Authority to produce an Approved Lending List of organisations.

7.5 Following unprecedented events in the financial markets during 2008 and subsequent continuing volatility, a revised enhanced set of credit rating criteria and approach, initially adopted in 2009/10, and which will continue to be utilised in 2012/13 that reflected the following:

(a) a system of scoring each organisation using Sector's (the approved Treasury Management consultants) enhanced creditworthiness service. This service uses a sophisticated modelling system that includes:

- credit ratings published by the three credit rating agencies (Fitch, Moodys and Standard and Poor) which reflect a combination of components (Sovereign, long term, short term, individual and support)
- credit watches and credit outlooks from the ratings agencies
- Credit Default Swaps (CDS) spreads to give early warnings of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most credit worthy countries
- any known Central Government involvement or specific guarantees issued for an organisation

(b) sole reliance would not be placed on the information provided by Sector. In addition the County Council will also use market data and information available from other sources, such as the financial press and other agencies and organisations.

(c) in addition to the above, the following measures would also continue to be actively taken into consideration:

- institutions will be removed or temporarily suspended from the Approved Lending List if there are significant concerns about their financial standing or stability
- investment exposure will be concentrated with higher rated institutions wherever possible.

7.6 Utilising the approach to the assessment of credit quality detailed in **paragraph 7.5**, the criteria and investment limits for specified investments (a maximum of 364 days) are:

- Institutions which are substantially owned by the UK Government (Nationalised Banks) being limited to £60m.
- Other institutions achieving suitable credit scores and colour bonding being limited to a maximum investment limit of between £20m and £50m (actual duration and investment limit dependent on final colour/score).

7.7 The criteria for Non Specified Investments (for periods of more than 364 days) are investments over one year to a maximum of two years with institutions which have a suitable credit score, limited to £5m with any one institution.

7.8 Local Authorities will continue to be included on the Approved Lending List for 2012/13, although suitable investment opportunities are limited. Local Authorities are classed as having the highest credit rating due to the way they are financed and their governance arrangements.

7.9 Listed below are the changes reflected in the latest Approved Lending List. In considering the Lending List and changes since February 2011, it should be noted the list is a 'snapshot' at one point in time and does not, therefore, reflect further in-year changes.

(a) Organisations included on the 2011/12 Approved Lending List which will NOT be included for 2012/13:

- Intesa Sanapolo Spa (Italy)
- Societe Generale (France)
- Credit Agricole (France)

(b) Organisations to remain in the 2012/13 Approved Lending List, but whose Maximum Investment Duration would be nil until Credit Ratings and market sentiment improve:

- Clydesdale Bank (trading as Yorkshire Bank)

(b) increase in lending limits for a number of nationalised and high quality banks:

- Barclays – from £40m to £50m
- Lloyds Banking Group (HBOS; Lloyds) – from £50m to £60m
- Royal Bank of Scotland Group (RBS; Northwest; Ulster Bank) – from £50m to £60m
- Svenska Handelsbanken – from £20m to £30m

7.10 These increases were approved by the County Council's Corporate Director – Finance and Central Services under delegated powers on 1 December 2011 to help manage the implications of (b) above.

8. **Treasury Management Reporting and Scrutiny Arrangements**

8.1 The 2011 updated CIPFA Code of Practice on Treasury Management reflected enhanced reporting and scrutiny arrangements in terms of:

(a) each authority must receive reports on its Treasury Management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid year review and an annual outturn report after the end of the year.

(b) Treasury Management performance and policy setting should be subject to ongoing scrutiny each authority must delegate the role of scrutiny of treasury management strategy and policy to a specific named body.

8.2 These enhanced requirements were taken on board by the Authority last year and were incorporated into Financial Regulation 16 (regarding Treasury Management) with the current arrangements being as follows:-

(a) on reporting the full Authority will receive, after consideration by the Performance Monitoring and Management Committee:

(i) an annual report that sets out the authority's Treasury Management Strategy, Policy and Prudential Indicator for the forthcoming financial year

(ii) an annual outturn report for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding year

(iii) a mid year report on Treasury Management matters including an update on Prudential Indicators

(b) on scrutiny the Authority nominated the Performance Monitoring and Management Committee to be responsible for ensuring effective scrutiny of the Treasury Management strategy, policies and day to day activities

9. **Recommendations**

9.1 That Members:

(i) adopt the practices required by the revised Code of Practice for Treasury Management in the Public Service as revised in November 2011.

(ii) approve the Annual Treasury Management Strategy for 2012/13 as detailed in **Appendix 1**, including the Prudential Indicators set out in Section 3, and the Minimum Revenue Provision policy set out in Section 9 of that Strategy.

(iii) adopt the Annual Investment Strategy agreed by the County Council for 2012/13.

(iv) approve the affordable borrowing limit of £335k for 2012/13, under section 3(i) of the Local Government Act 2003 as set out in Paragraph 3(iv) of the **Appendix 1**.

(v) confirm the delegation to the Treasurer, as agreed in previous years, for the following matters:-

(a) any need to effect changes between the separate agreed limits for borrowing and other long term liabilities (such as finance leases) in accordance with option appraisal, value for money or other relevant factors. This applies to the Prudential Indicators in paragraph 3(iv) and 3(v) of the **Appendix 1**.

(b) decisions to borrow from the PWLB and money markets at the most advantageous rate, as set out in Paragraph 5.6 of the **Appendix 1**.

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Background papers to this Report **File ref**

1. CIPFA code of Practice on Treasury Management in the Public Services.
2. CIPFA Prudential Code for Capital Finance in local authorities

Appendix 1

North York Moors National Park Authority

Treasury Management Strategy Statement 2012/13

1.0 Introduction

1.1 This Treasury Management Strategy statement details the expected activities of the Treasury function in the financial year 2012/13. Its production and submission to Members is a requirement of the Local Government Act 2003, the *CIPFA Treasury Management Code of Practice in the Public Sector & Prudential Code as updated.*

1.2 The suggested strategy for 2012/13 in respect of the following aspects of the treasury management function is based upon officer's views on interest rates, supplemented with market forecasts.

The strategy covers:-

- the Treasury Limits in force which will limit the treasury risk and activities of the Authority (**paragraph 2**)
- Prudential Indicators (**paragraph 3**)
- the current treasury position (**paragraph 4**)
- the Borrowing Requirement and Borrowing Limits (**paragraph 5**)
- Borrowing Policy (**paragraph 6**)
- prospects for interest rates (**paragraph 7**)
- the Borrowing Strategy (**paragraph 8**)
- Minimum Revenue Provision Policy (**paragraph 9**)
- Annual Investment Strategy (**paragraph 10**)
- other treasury management issues (**paragraph 11**)

2.0 Treasury Limits For 2012/13 To 2014/15

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed **the Affordable Borrowing Limit**.

2.2 The Authority must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (therefore see **paragraph 3** below).

2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.0 Updated Prudential Indicators Proposed For 2012/13 To 2014/15

3.1 The proposed Prudential Indicators for the Authority for the 2012/13 financial year are as follows.

(i) Estimated Ratio of Capital Financing Costs to the Net Revenue Budget (Affordability)

This indicator identifies the trend in the cost of borrowing (principal and interest) net of interest earned on temporary balances against net revenue expenditure met from National Park Grant

The estimated ratios for the current and future years and the actual figures for 2010/11 are set out in the table below. As the interest on balances exceeds the cost of borrowing set out in the later indicators, the effective percentage is nil in all cases.

Year	Basis	%
2010/11	actual	0.00%
2011/12	probable	0.00%
2012/13	estimate	0.07%
2013/14	estimate	0.01%
2014/15	estimate	0.00%

(ii) Capital Expenditure Plans (Actual and Estimated)

The actual capital expenditure that was incurred by the Authority in 2010/11 and the estimates of capital expenditure to be incurred for 2011/12 and future years are outlined in the table below.

It is important to note that this table reflects the total capital spending plans for the Authority funded by borrowing, National Park Grant and other external funding sources. All the prudential indicators that follow are based upon the possible borrowing element of these spending plans only, but do not commit the authority to using this source of finance.

Year	Basis	£k	
2010/11	actual	160.0	
2011/12	probable	98.0	
2012/13	estimate	175.0	Assumes all capital expenditure on vehicles will be funded from borrowing rather than Grant or Revenue contributions
2013/14	estimate	55.0	
2014/15	estimate	125.0	

(iii) **Capital Financing Requirement and Forecast**

The capital financing requirement relates to the underlying need of the Authority to borrow to finance capital purposes. Estimates of the capital financing requirement at the future financial year end dates are as follows:-

Date	Basis	£k
31 March 2011	actual	0.0
31 March 2012	possible	98.0
31 March 2013	estimate	85.0
31 March 2014	estimate	89.5
31 March 2015	estimate	156.5

The above figures provide the option to allow the Authority to consider funding capital purchases by borrowing. These being £98k in 2011/12, £85k in 2012/13, £90k in 2013/14 and £157k in 2014/15. However the level of debt outstanding needs to be adjusted for the Minimum Revenue Provision (MRP). Details of the way in which this provision is made is covered in Section 9 below. This MRP provision applies to debt outstanding at the end of each financial year and therefore the MRP charge will be applicable from 2012/13 onwards and the capital financing requirement will be reduced accordingly.

(iv) **Authorised Limit for External Debt**

This indicator represents the limit beyond which borrowing by the Authority is prohibited, and is based upon the best estimate of increases in debt arising from the capital financing requirement plus a margin to allow some flexibility for unforeseen cash movements. This has been included at £250,000.

The limit is analysed between borrowing and other long term liabilities (such as finance leases) to show the actual debt owed by the Authority and any other financing instruments that have been used.

The Treasurer has delegated authority to effect any changes between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal, value for money and any other relevant factors.

The recommended Authorised limits for external debt are as follows:

Year	Borrowing Limit £k	Other Long Term Liabilities £k	Total £k
2011/12	348.0	0.0	348.0
2012/13	335.0	0.0	335.0
2013/14	339.5	0.0	339.5
2014/15	406.5	0.0	406.5

The Treasurer can confirm that the Authorised Limit is consistent with the Authority’s current commitments and budget process.

Under **Section 3(1) of the Local Government Act 2003** the Authority must determine a Statutory Limit in terms of how much money it can afford to borrow. This affordable borrowing limit must be set for the following year. The Authorised limit of £335k will act as this limit for 2012/13.

(v) **Operational Boundary for External Debt**

This indicator is based on the probable external debt position during the course of the year. It is not a limit and actual borrowing could vary around this boundary during the year. The difference between this indicator and the Authorised Limit is the £250,000 which provides headroom for unusual cash movements.

In line with the Authorised limit, the operational boundary is analysed between borrowing and other long term liabilities separately. The Treasurer has delegated authority to make in year changes to the operational boundary and its sub categories.

Year	Borrowing Limit £k	Other Long Term Liabilities £k	Total £k
2011/12	98.0	0	98.0
2012/13	85.0	0	85.0
2013/14	89.5	0	89.5
2014/15	156.5	0	156.5

(vi) **Actual External Debt**

This Authority had no external debt at 31 March 2011. The position as at 31 March 2012 will depend on the decisions regarding the financing of vehicles and equipment throughout the year, although at this late stage of the financial year no external borrowing is envisaged.

(vii) **CIPFA Code Compliance.**

The CIPFA Code of Practice on Treasury Management in the Public Services was originally issued in 2001, subsequently updated in November 2009 and adopted by the Authority on 15 March 2010. The Authority agreed to adopt the latest updated Code issued in November 2011 on 6 February 2012.

(viii) **Interest Rate Exposures**

If the Authority were to borrow in 2012/13, it would follow the Borrowing Strategy set out in Section 8 of this document. Borrowing could be taken from the Public Works Loan Board (PWLB), the Government's lending agency to Local Authorities, from the money market, or from internal surplus cash balances.

A decision required by officers would be whether to take the borrowing in the form of a fixed interest rate or a variable interest rate loan. This decision would be made based on the prevailing interest rate environment at the time. A fixed rate loan is usually considered less risky than a variable loan as it gives certainty for budget purposes and it is difficult to predict future interest rate changes. However if interest rates were predicted to decrease in the short term gains could be accrued through variable rate borrowing.

To allow flexibility this indicator sets an upper limit on fixed interest rate exposures for 2012/13, 2013/14 and 2014/15 of **100%** of the authority's net outstanding principal sums. In essence all borrowings could be taken at fixed rates if required.

This indicator sets an upper limit on variable interest rate exposure for the same period at **40%** of net outstanding principal sums. This is based on advice from the County Council and reflects the riskier nature of these types of loan.

The advice of the County Council's Treasury Management Advisers is that a maximum of 20% of cash balances is invested for periods of longer than 364 days. Since investments of under 365 days are classed as variable rates, this fixes the limit of **20%** on fixed interest rate exposure for investments

If the Authority does decide to borrow the Treasurer will manage fixed interest rate exposures within the range **100%** and variable interest rate exposures within the range **-100%.** This is a continuation of the Authority's current treasury management practice. The variable interest rate limit can be negative as investments under 365 days are classed as variable and are credit balances. Therefore due to the Authority currently not holding debt, the Authority could be exposed to 100% of its investment portfolio in investments under 365 days.

Borrowing	**%age of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100
Combined net borrowing/investment position	
Limits on fixed interest rate exposures	110 to 160
Limits on variable interest rate exposures	-10 to -60

(ix) **Maturity Structure of Borrowing**

Upper and lower limits for the maturity structure of borrowings are set to allow maximum flexibility -

Period	Lower Limit	Upper Limit
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

(x) **Total Principal Sums Invested for Periods longer than 364 days**

In line with the County Council's policy and advice in this area, a prudential indicator of **20%** of the Authority's core cash balances is recommended for investments longer than 364 days.

A maximum of 20% of funds available for investment will be held in aggregate in "Non-Specified investments" over 364 days.

4.0 **The Current Treasury Position**

4.1 As at 31 December 2011, the Authority's Treasury position was as shown below:

Item	Principal as at 31 December 2011 £k	Average return in 2011/12 to 31 December 2011 %
Debt Outstanding		
None	0	
Investments		
Managed by NYCC	2,243.8	1.18

5.0 **The Borrowing Requirement And Borrowing Limits**

5.1 The **Operational Boundary** reflects an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year. The **Authorised Limit** is based on the same estimate as the **Operational Boundary** but allows sufficient headroom over this figure to allow for unusual cash movements.

5.2 The **Authorised Limit** therefore represents the maximum amount of external debt which the Authority agrees can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the Authority will have to borrow up to the limit agreed.

5.3 The agreed **Operational Boundary** and **Authorised Limit** for external debt up to 2014/15 are as follows:

	Item	2011/12 estimate £k	2012/13 estimate £k	2013/14 estimate £k	2014/15 estimate £k
	Debt Outstanding at the start of the Year	0.0	98.0	85.0	89.5
+	Internal or External borrowing requirements	98.0	10.0	30.0	100.0
-	MRP charged to revenue	0.0	-23.0	-25.5	-33.0
=	**Operational Boundary for year**	98.0	85.0	89.5	156.5
+	**Provision to cover unusual cash movements**	250.0	250.0	250.0	250.0
=	**Authorised Limit for year**	**348.0**	**335.0**	**339.5**	**406.5**

6.0 Borrowing Policy

6.1 The policy of the Authority is that if external borrowing is required to finance capital expenditure, then loans will be sought from the Public Works Loan Board (PWLB) or the money markets, over periods up to 70 years which reflect the best possible value to the Authority and/or the life of the Authority's assets. Individual loans are also chosen depending on the perceived value of interest rates at the time of borrowing. Consideration will be given to internal borrowing from internal cash balances. This is dealt with in more detail in Section 8 on Borrowing Strategy.

6.2 The Treasurer, on the advice of the County Council's Treasury Management Adviser, advises that if borrowing was undertaken from the money markets then loans should be limited to 30% of the total debt portfolio.

6.3 The Authority will look to borrow from the PWLB and money markets at the most advantageous rate. The Treasurer will monitor this situation closely throughout the year to determine the most appropriate and advantageous borrowing.

6.4 The Prudential Code allows external 'borrowing for capital proposes' in advance of need with the constraints of relevant approved Prudential Indicators. There are risks, however, in such borrowing in advance of need and the Authority has not taken any such borrowing to date and there are no current plans to do so. Furthermore, the Authority will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. Any such borrowing in advance of need will only be considered where there is a clear business case for doing so for the current Capital Plan or to finance future debt maturity payments.

6.5 The merits of internal capital borrowing from the Authority's surplus cash balances also needs to be considered very carefully and this is covered in more detail in paragraphs 8.3 to 8.9.

7.0 Prospects For Interest Rates

7.1 Whilst recognising the continuing volatility and turbulence in the financial markets, the following paragraphs present a pragmatic and measured assessment of key economic factors as they are likely to impact on interest rates over the next three years.

7.2 In terms of the key economic background and forecasts, looking ahead the current position is as follows:

(a) **Global Economy**

- the outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers any optimism for the outlooks 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
- in addition 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. As far as the financial markets are concerned the Eurozone has a well established track record of always doing too little too late to deal with crisis of this kind; 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 ability 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.

(b) **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 forecasts 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 to stimulate economic activity
- **unemployment** - with the impact of the Government's austerity strategy impacting the trend for 2011 of steadily increasing unemployment, 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. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.
- **AAA rating** - the ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy 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.

(c) **A Forward View**

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

  ➔ a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself

  ➔ the impact of the Eurozone crisis on financial markets and the banking sector

  ➔ the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods

- ➔ the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that increasingly seem likely to be undershot
- ➔ a continuation of high levels of inflation
- ➔ the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both
- ➔ stimulus packages failing to stimulate growth
- ➔ elections due in the US, Germany and France in 2012 or 2013
- ➔ potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China

- the overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus
- 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, the prospects for any interest rate changes before mid 2013 are very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

7.3 By drawing together a number of current city forecasts for short term (Bank rate) and longer fixed interest rates a consensus view for bank rate, short term investment rates and PWLB borrowing rates is as follows:-

	Bank Rate	PWLB Borrowing Rates				Short Term Investment Rates	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	%
Current	0.50	2.07	3.19	4.10	4.17	0.80	1.70
Mar 2012	0.50	2.30	3.30	4.20	4.30	0.70	1.50
June 2012	0.50	2.30	3.30	4.20	4.30	0.70	1.50
Sept 2012	0.50	2.30	3.40	4.30	4.40	0.70	1.50
Dec 2012	0.50	2.40	3.40	4.30	4.40	0.70	1.60
Mar 2013	0.50	2.50	3.50	4.40	4.50	0.75	1.70
June 2013	0.50	2.60	3.60	4.50	4.60	0.80	1.80
Sept 2013	0.75	2.70	3.70	4.60	4.70	0.90	1.90
Dec 2013	1.00	2.80	3.80	4.70	4.80	1.20	2.20
Mar 2014	1.25	2.90	4.00	4.80	4.90	1.40	2.40
June 2014	1.50	3.10	4.20	4.90	5.00	1.60	2.60

	Bank Rate	PWLB Borrowing Rates				Short Term Investment Rates	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	%
Sept 2014	2.00	3.30	4.40	5.00	5.10	2.10	3.10
Dec 2014	2.25	3.50	4.60	5.10	5.20	2.40	3.20
Mar 2015	2.50	3.70	4.80	5.20	5.30	2.60	3.30

7.4 Thus based on **paragraphs 7.2 and 7.3** above

Bank Rate

- 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 at 0.5%, underpins investment returns and is not expected to start increasing until around September 2013 despite inflation currently being well above the MPC's target
- it will then continue to rise along with economic recovery reaching 1.25% in March 2014 and 2.5% by March 2015
- there is potential for the start of bank rate increases to be delayed even further if growth disappoints.

PWLB Rates

- PWLB rates are forecast to rise gradually throughout the next three years in all the periods as follows:

Period	March 2011 %	March 2014 %	Increase %
5 years	2.30	3.70	+ 1.40
10 years	3.30	4.80	+ 1.50
25 years	4.20	5.20	+ 1.00
50 years	4.30	5.30	+ 1.00

Short Term Investment Rates

- short term investment returns are likely to remain relatively low during 2012/13
- returns are expected to increase along with bank rate increases but potentially ahead of the first bank rate increase expected around 2013.

8.0 The Borrowing Strategy

8.1 Based on the interest rate forecast outlined above, there is as usual a range of options available for the borrowing strategy for 2012/13. Variable rate borrowing is expected to be cheaper than long term fixed rate borrowing and will, therefore, be attractive throughout the financial year compared to simply taking long term fixed rate borrowing. Under 10 years PWLB rates are expected to be substantially lower than longer term PWLB.

8.2 The main Strategy for undertaking new borrowing will be to generally take advantage of the lowest borrowing rates available with forecast PWLB borrowing rates (see **paragraph 7.4**) for under 10 years expected to be significantly cheaper than longer term borrowing. Under 5 years rates are expected to be significantly lower than 5-10 year rates. The downside of such shorter term borrowing is the loss of long term stability in interest payments that longer term fixed interest rate borrowing provides. Rates are expected to gradually increase during the year so it may therefore be advantageous to take any shorter period borrowing earlier in the year.

External -v- internal borrowing

8.3 2012/13 is expected to be one of continuing historically low bank rate which provides an opportunity for a variation in the usual borrowing strategy of external loans from the PWLB or money markets.

8.4 The Authority has cash balances. In 2011/12 there is a current daily average of £2.09m. This cash consists of cash flow generated (creditors and debtors etc); reserves, balances and provisions etc.

8.5 The existing borrowing policy does provide for such shorter term borrowing from the Authority's revenue cash balances depending on the relationship between short term variable interest rates and the fixed term PWLB or money market rates for longer periods. Consideration will, therefore, be given to the potential merits of internal borrowing and it is anticipated that the financing of the Authority's vehicles will be achieved in this way.

8.6 Over the next three years investment rates are expected to be below long term borrowing rates. A value for money assessment would indicate that value could be obtained by avoiding/delaying some or all new external borrowing and by using internal cash balances to finance new capital expenditure. This would maximise short term savings but is not risk free.

8.7 The use of such internal borrowing, which runs down investments, also has the benefit of reducing exposure to low interest rates on investments, and the credit risk of counterparties.

8.8 In considering this option, however, two significant risks to take into account are:

(a) the implications of day to day cash flow constraints and

(b) short term savings by avoiding/delaying new external borrowing in 2012/13 must be weighted against the loss of longer term interest rate stability. Thus there is the potential for incurring long term extra costs by delaying unavoidable new external borrowing until later years by which time PWLB long term rates are forecast to be significantly higher.

8.9 Against this background, the Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances - any key strategic decisions that deviate from the above will be reported to the Authority as soon as possible.

Sensitivity of the forecast

8.10 The main sensitivities of the forecast are likely to be the two scenarios below. The Treasurer will, in conjunction with the County Council's Treasury Management Adviser, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:

(i) *if it is felt that there was a significant risk of a sharp fall in both long and short term rates,* e.g. Due to the marked increase of risks around the relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short rate funding will be considered.

(ii) *if it is felt that there was a significant risk of a much sharper rise in both long and short term rates than currently forecast,* perhaps arising from a greater than expected increase in world economic activity or sudden increases in inflation, 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 cheaper

9.0 Minimum Revenue Provision Policy

9.1 The statutory requirement for local authorities to charge revenue each year a specific sum for debt repayment was replaced in February 2008 with more flexible statutory guidance.

9.2 The new simple statutory duty is that a local authority shall determine for the current financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4 % of the Authority's Capital Financing Requirement (CFR). The CFR consists of external debt plus capital expenditure financed by borrowing from internal sources (surplus cash balances).

9.3 Along with the above duty the Government also issued new guidance in February 2008 which requires that a Statement on the Authority's policy for its annual MRP should be submitted to the Authority for approval before the start of the financial year to which the provision will relate. The Authority are therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as a CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance in Investments.

9.4 The guidance is intended to enable a more flexible approach to assessing the amount of annual provision than was required under previous statutory requirements. The guidance offers four options under which MRP might be made, with an overriding recommendation that the Authority 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 (i.e. estimated useful life of the asset being financed). The previous system of 4% MRP did not necessarily provide that link. Although four options are described in the guidance, there is no intention to be prescriptive to make these the only options which a local authority may consider as being prudent.

9.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this annual Treasury Management report.

9.6 The move to IFRS in 2010/11 involved some long term liabilities such as finance leases being brought onto balance sheets with a consequential impact on the CFR and annual MRP provision. No such long term liabilities have been identified for the Authority and therefore, no changes are required to the 2012 MRP policy.

9.7 The policy for 2012/13 therefore takes into account the fact that the Authority has no outstanding debt. The proposed policy is as follows.

For locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008, MRP will be calculated based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken.

9.8 The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 25 years for buildings, 50 years for land, 5 to 7 years for vehicles, plant and equipment, and 3 years for IT equipment. To the extent that expenditure is not on the creation of an asset (e.g. capital grants and loans), 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 Authority.

9.9 This method of calculating the MRP is a simpler alternative to depreciation accounting. The option also allows the Authority to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

9.10 This policy has been used, in respect of the requirement for capital expenditure, to calculate the provisions made in the Prudential Indicators set out in section 3 of this statement.

9.11 Future annual reviews of the Authority's MRP Policy will be undertaken and reported to Members as part of this Annual Treasury Management report.

10.0 Annual Investment Strategy (Ais)

10.1 The Treasury Management Contract with North Yorkshire County Council covers the day to day investment requirements of the Authority. The net return/cost achieved by the County Council officers will be closely monitored by the Treasurer. Bearing in mind the recent volatility in rates, this will allow the position relative to budget assumptions to be reviewed on a regular basis.

10.2 Within the terms of the contract the County Council continues to make all investments in accordance with the Local Government Act 2003 which requires an Annual Investment Strategy to be approved. The Authority has, therefore, adopted the Annual Investment Strategy approved by the County Council. A copy of the document is available for members on request. The information below outlines the strategy for investments.

10.3 The Authority's investment priorities are:

(i) the Authority will have regard to the revised Government Guidance on Local Government Investments, the Audit Commission's report on Icelandic Investments and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes.

(ii) the Authority's investment policy has two fundamental objectives

- the security of capital (protecting the capital sum from loss); and then
- liquidity (keeping the money readily available for expenditure when needed).

(iii) the Authority will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the Authority is low in order to give priority to the security of investments

(iv) the borrowing of monies purely to invest or on-lend and make a return is unlawful and the County Council will not engage in such activity

(v) investment instruments for use in the financial year are listed under **Specified** and **Non Specified investment** categories (**see paragraphs 10.8 and 10.9**)

(vi) Counterparty Limits (which are set to secure the surplus funds the authority lends to counterparties) will be as set through the County Council's Treasury Management Practices Schedules

10.4 The County Council manages its cash balances internally, including those of this Authority.

10.5 Ongoing discussions will be held with the County Council's Treasury Management Adviser on whether to consider the appointment of fund manager(s) or continue investing in-house or any other appropriate investment opportunities.

10.6 The authority's surplus funds are invested with the County Councils funds and therefore the investment interest earned by the Authority will be from a combination of different short term investments.

10.7 Various changes have been made to the Lending List of the County Council for the 2012/13 Treasury Management and Investment Strategy and the Lending List is kept under regular review. This revised lending list, at the time of compiling this report, is detailed in **Schedule A**.

10.8 The Investment Counterparty Limits lending list for 2012/13, is divided between Specified and Non-Specified Investments. This is based on Government Guidance on Local Authority Investments which identifies investments as being either specified or non-specified.

10.9 All Specified Investments are identified by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, Specified Investments are defined as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality.

Non-Specified Investments attract a greater potential for risk and are defined as being "those investments not meeting the definition of Specified Investments above".

11.0 Other Treasury Management Issues

11.1 The Treasurer continues to monitor and assess other potential innovative methods of funding. Depending on the way these initiatives progress, it may be necessary to review the overall financing/borrowing figures included in this Strategy. The Treasurer will monitor the position as it develops throughout the year and report as necessary to the Authority.

John Moore
Treasurer

Finance and Central Services
County Hall
Northallerton
18 January 2012

Schedule A

Approved Lending List For 2012/13

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (over 1 year)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	60.0	364 days	-	-
Natwest Bank	GBR				
Ulster Bank Ltd	GBR				
Bank of Scotland	GBR	60.0	364 days	-	-
Lloyds TSB	GBR				
UK "Clearing Banks" and organisations covered by the UK Government guarantee of liquidity					
Santander UK plc (includes Cater Allen)	GBR	40.0	3 months	-	-
Barclays Bank	GBR	50.0	3 months	-	-
HSBC	GBR	30.0	3 months		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0	temporarily suspended	-	-
Nationwide Building Society	GBR	30.0	3 months	-	-
Other UK based banks and high quality Foreign Banks					
National Australia Bank	AUS	See Clydesdale above		-	-
Canadian Imperial Bank of Commerce	CAN	20.0	3 months	-	-
Deutsche Bank	DEU	20.0	3 months	-	-
Nordea Bank Finland	FIN	20.0	3 months	-	-
Credit Industriel et Commercial	FRA	20.0	3 months	-	-
BNP Paribas Fortis	FRA	20.0	3 months	-	-
Nordea Bank AB	SWE	20.0	3 months	-	-
Svenska Handelsbanken	SWE	20.0	3 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as at 20 January 2012

North Yorkshire County Council
Annual Investment Strategy 2012/13
Specified Investments

Investment	Security / Minimum Credit Rating	Circumstances of use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (banks & building societies), including callable deposits with maturities less than 1 year	Organisations assessed as having "high credit quality" plus a minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house
Certificates of Deposits issued by credit rated deposit takes (banks & building societies) up to 1 year		Fund Manager or In-house buy & hold after consultation from Treasury Management Advisor
Forward deals with credit rated banks & building societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house via a broker or direct
Money Market Funds i.e. collective investment scheme as defined in SI 2004 No 534 *These funds have no maturity date*	Fund must be AAA rated	In-house limited to £20m but as yet not used
Gilts (with maturities of up to 1 year) *Custodial arrangements prior to purchase*	Government backed	Fund Manager or In-house buy & hold after consultation from Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months *Custodial arrangements required prior to purchase*		After consultation with Treasury Management Advisor

SCHEDULE B

Investment	A) Why use it? B) Associated risks?	Security / Minimum Credit Rating	Circumstances of use	Max % of overall investments or cash limits in each category	Maximum investment with any one counterparty	Maximum Maturity Period
Term Deposit with credit rated deposit takers (banks & building societies), UK Government and other Local Authorities with maturities greater than 1 year	A) Certainty of return over period invested which would be useful for budget purposes B) i) Not Liquid, cannot be traded or repaid prior to maturity ii) Return will be lower if interest rates rise after making deposit iii) Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality" Plus a minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house via money market broker or direct	100% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£12m based on estimate for 2012/13)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
Certificates of Deposit with credit rated deposit takers (banks & building societies) with maturities greater than 1 year *Custodial arrangement prior to purchase*	A) Attractive rates of return over period invested and in theory tradable B) Market or "interest rate" risk; the yield is subject to movement during life of CD which could negatively impact on its price		Fund Manager or in-house buy & hold after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	£3m	
Callable Deposits with credit rated deposit takers (banks & building societies) with maturities greater than 1 year	A) Enhanced Income - potentially higher return than using a term deposit with a similar maturity		To be used in-house after consultation with Treasury Management Advisor	50% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£6m)	£5m	

Investment	A) Why use it? B) Associated risks?	Security / Minimum Credit Rating	Circumstances of use	Max % of overall investments or cash limits in each category	Maximum investment with any one counterparty	Maximum Maturity Period
	B) i) Not Liquid - only borrower has the right to pay back the deposit; the lender does not have a similar call period over which the investment will actually be held is not known at the outset ii) Interest rate risk; borrower will not pay back deposit if interest rates rise after the deposit is made					
Forward Deposits with a credit rated bank or building society > 1 year (i.e. negotiated deal period plus period of deposits	A) Known rate of return over the period the monies are invested - aids forward planning B) i) Credit risk is over the whole period not just when monies are invested ii) Cannot renege on making the investment if credit quality falls or interest rates rise in the interim period	Organisations assessed as having "high credit quality" Plus a minimum Sovereign rating of AA- for the country in which an organisation is domiciled	To be used in-house after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	£3m	

Investment	A) Why use it? B) Associated risks?	Security / Minimum Credit Rating	Circumstances of use	Max % of overall investments or cash limits in each category	Maximum investment with any one counterparty	Maximum Maturity Period
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangements required prior to purchase*	A) i) Excellent credit quality ii) Relatively Liquid iii) If held to maturity, yield is known in advance iv) Enhanced rate in comparison to gilts B) Market or "interest rate" risk; yield subject to movement during life off bond which could impact on price	AA or Government backed	In-house on a "buy and hold" basis after consultation with Treasury Management Advisor or use by Fund Managers	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	N/A	2 years subject to potential future review with a maximum of no longer than 5 years
Bonds issued by Multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangements required prior to purchase*	A) i) Excellent credit quality ii) Relatively Liquid iii) If held to maturity, yield is known in advance iv) Enhanced rate in comparison to gilts B) Market or "interest rate" risk; yield subject to movement during life off bond which could negatively impact on price	AA or Government backed	In-house on a "buy and hold" basis after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	£3m	

SCHEDULE C

Investment	A) Why use it? B) Associated risks?	Security / Minimum Credit Rating	Circumstances of use	Max % of overall investments or cash limits in each category	Maximum investment with any one counterparty	Maximum Maturity Period
UK Government Gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	A) i) Excellent credit quality ii) Liquid iii) If held to maturity, yield is known in advance iv) If traded, potential for capital appreciation B) Market or "interest rate" risk: yield subject to movement during life of the bond which could impact on price	Government backed	Fund Manager	25% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£3m)	N/A	2 years subject to potential future review with a maximum of no longer than 5 years
Collateralised Deposit	A) Excellent credit quality B) i) Not Liquid, cannot be traded or repaid prior to maturity ii) Credit risk as potential for greater deterioration of credit quality over a longer period	Backed by collateral of AAA rated local authority LOBO's	In-house via money market broker or direct	100% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£12m based on estimate for 2012/13)	£5m	