TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY

2012-13

EXECUTIVE SUMMARY

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INTRODUCTION
This executive summary identifies the core components of the Council's treasury management strategy and brings out for Members the key areas covered within that strategy together with key statistical information and issues for consideration.

BACKGROUND
CIPFA (the professional accountancy body of the public sector) requires that all Councils produce a treasury management strategy setting out the treasury management activities that the Council plans to undertake in the forthcoming financial year. CIPFA also requires that the strategy be approved by Full Council prior to the start of the financial year concerned.

RISK MANAGEMENT
This section identifies the risks that the Council faces as a result of it undertaking treasury management activities and how the Council manages each of those risks (as listed below) down to an acceptable level within the regulatory framework

Liquidity risk
Credit (or counterparty) risk
Interest rate risk
Inflation rate risk
Exchange rate risk
Market risk
Refinancing risk
Procedural risk
Legal and regulatory risk

During the year 2012-13 the Council does not intend to use derivatives in order to help manage these risks down to an acceptable level.

PRUDENTIAL INDICATORS
Each year the Council sets for itself a set of Prudential Indicators. These indicators are designed to ensure that the Council's treasury management and capital financing activities are undertaken in an affordable, prudent and sustainable manner.

The most important prudential indicator is the Affordable Limit. This indicator is the maximum amount of external loans that the Council can have outstanding at any point in time. Statute stipulates that a Council cannot breach its affordable limit. The proposal is to set the Council's affordable limit for the year 2011-12 at £386 million.

For the year 2012-13 two new Prudential Indicators need to be set. The first indicator, the proportion of net debt to gross debt is intended to show when council's are borrowing in advance of need. For the year 2012-13 this limit will be set at £296m. ie if the amount of long term loans outstanding less the amount of cash balances held exceeds £296m then the Council will be presumed to be borrowing in advance of need.

The second new indicator places a limit on the amount of housing debt that the Council may have outstanding at the end of each financial year. The Council intends to set this limit at £107.33 million for the year 2012-13, this limit being equal to the indicative cap level set for the Council by the CLG as part of the reform of the council housing finance subsidy system.

INTEREST RATES

Short term interest rates are forecast to remain unchanged during the whole of 2012-13. Long term interest rates, however, are forecast to rise slightly over the year. The forecasts from the Council's treasury management advisers are detailed below

	March 2012	Sept 2012	March 2013
UK base rate	0.50%	0.50%	0.50%
10 year loan rate	3.30%	3.45%	3.55%
20 year loan rate	4.05%	4.10%	4.25%
50 year loan rate	4.40%	4.60%	4.80%

CURRENT PORTFOLIOS

The portfolio of loans and deposits that it is estimated the Council will hold during the year 2012-13 are as follows

	March 2012	March 2013	Rate of Interest
Long term loans – general fund	£155 m	£175 m	4.67%
Long term loans – HRA	£ 96 m	£103 m	3.20%
Cash deposits	£ 45 m	£ 45 m	0.50%

BORROWING REQUIREMENT

The Council expects to fund £32 million of capital expenditure through borrowing in the year 2012-13. During the year 2012-13 the Council expects to charge the income and expenditure account with £12 million in respect of the repayment of debt. No long term loans are scheduled to be repaid during the year 2012-13. The Council therefore expects to raise £20 million of new long term loans during the year 2012-13 (ie £32 m + £0 m - £12m).

The aim is to raise these new long term loans through variable rate loans for periods of up to 10 years (the maximum period for which variable rate loans will be advanced by the Public Works Loans Board). The loans raised may be either maturity loans (ie the whole of the loan is repaid at the end of the loan period) or equal instalment of principal loans (ie loans where the principal amount borrowed is repaid in equal instalments over the life of the loan)

Fixed rate loans for other periods, either longer or shorter, may also be considered should the prevailing circumstances indicate that such loans are the most beneficial to raise.

DEBT RESCHEDULING

The opportunities to undertake debt rescheduling (ie repaying an existing loan early and raising a new loan at around the same time) will continue to be monitored during the year 2012-13. The aim of debt rescheduling is generally to either reduce the amount of interest payable on the Council's portfolio of long term loans over the medium to longer term and / or produce a smoother profile of loan repayments. In recent years the occasions on which it has been beneficial to undertake debt rescheduling have been extremely limited. The changes to the PWLB interest rate setting formula introduced as part of the October 2010 Comprehensive Spending Review have severely limited the number of occasions on which debt rescheduling can be undertaken.

ANNUAL INVESTMENT STRATEGY

It is proposed that the Council will choose to deposit monies in the following instruments during the year 2012-13

Instrument	Maximum Amount
UK Government Bonds and Treasury Bills	n/a
Multilateral Development Bank Bonds that have a AAA credit rating	n/a
Deposits with the Debt Management Office	n/a
Deposits with a UK local authority / pension fund	£10m
Deposits and / or Certificates of Deposit with each of the following banks	
UK banks	
– Barclays	£20m
- HSBC	£20m
- Lloyds Banking Group	£20m
- Nationwide Building Society	£20m
- Royal Bank of Scotland Group	£20m
- Santander (UK)	£20m
- Standard Chartered	£20m
- Clydesdale / Yorkshire Bank	£20m
Money market funds with a credit rating of AAAmmf (or equivalent)	£20m
UK Government Security money market funds with a credit rating of AAAmmf (or equivalent)	£15m

TREASURY MANAGEMENT ADVICE

The Council is currently provided with advice on treasury management matters by Arlingclose under a 3 year 3 month contract that is due to end in March 2012. A new three year contract commencing 1st April 2012 has recently been awarded to Arlingclose following the conclusion of a competitive tendering process undertaken in the latter months of 2011.

Arlingclose provide advice in the following areas

- the forecast level of interest rates
- the raising of long term loans (timing, duration, type)
- the placing of deposits (who with, duration, type and timing
- changes in legislation / regulatory requirements
- adequacy of the Council's reserves
- quarterly strategy meetings
- training workshops and seminars

The services provided by Arlingclose are monitored by officers on an on-going basis through a variety of means.