APPENDIX 1

Denbighshire County Council

Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16

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Treasury Management Strategy Statement
and Investment Strategy 2013/14 to 2015/16

1 Background

1.1 The Council is responsible for its Treasury Management decisions and activity which involves looking after the Council's cash. This is a vital part of the Council's work because approximately £0.5bn passes through the Council's bank account every year.

1.2 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to produce the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Welsh Government's (WG) Investment Guidance.

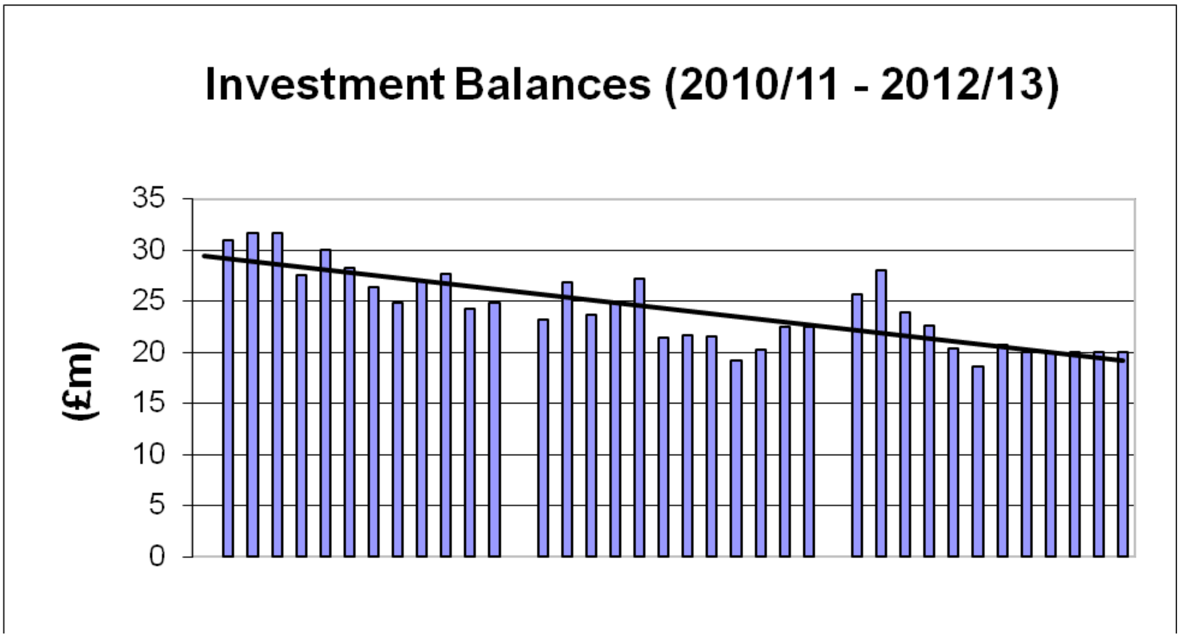
1.3 The purpose of the TMSS is to set:

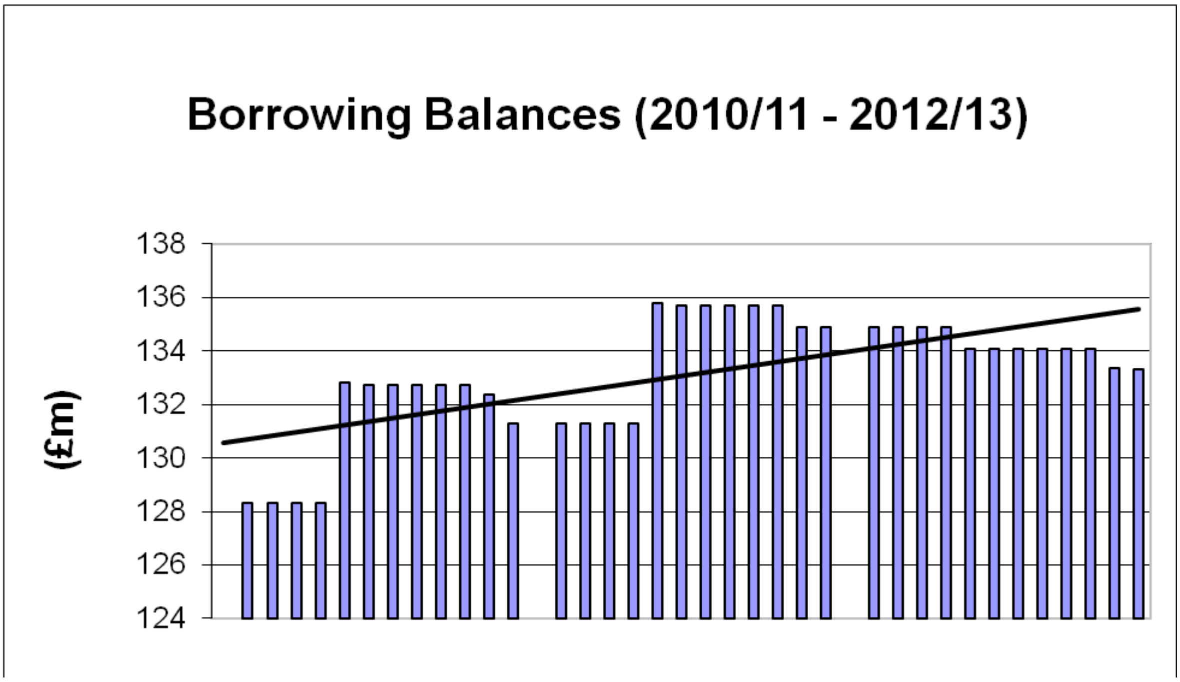
- Treasury Management Strategy for 2013/14
- Annual Investment Strategy for 2013/14
- Prudential Indicators for 2013/14, 2014/15 and 2015/16 (**Annex A**)
- MRP Statement

1.4 The Council adopted the original CIPFA Treasury Management Code in March 2002. A revised Code was issued in November 2009 and another in November 2011. The Council approved the revised Code (Nov 2011) at its meeting on 28 February 2012.

2 Treasury Position

2.1 The levels of the Council's investment and borrowing balances over the last three years are shown in the graphs below. The first chart shows that the amount of money we have to invest has decreased over the last three years. The second shows the Council's borrowing has increased slightly over the course of the last three years as we have built up our borrowing levels by taking advantage of low interest rates.





3 Investment Strategy

3.1 In accordance with Investment Guidance issued by the WG and best practice the Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments is secondary, followed by the yield earned on investments which is a tertiary consideration.

3.2 The Council and its advisors remain on a heightened state of alert for signs of credit or market distress that might have an adverse effect on the investment position.

3.3 Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the WG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” threshold as determined by the Council and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

3.4 The types of investments that can be used by the Council and whether they are specified or non-specified are listed in **Annex B**.

3.5 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). The Head of Finance & Assets will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

The other credit characteristics, in addition to credit ratings, that the Council monitors are listed in the Prudential Indicator on Credit Risk (**Annex A**).

Any institution will be suspended or removed should any of the factors identified above give rise to concern. Arlingclose advises the Council on ratings changes and appropriate action to be taken.

The countries and institutions that currently meet the criteria for investments are included in **Annex C**.

3.6 The Council banks with Natwest Plc. At the current time, it meets the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Council’s minimum criteria Natwest Plc will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

3.7 With short term interest rates expected to be low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

3.8 In order to diversify an investment portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

3.9 Money market funds (MMFs) may be utilised but good treasury management practice will prevail and whilst MMFs provide good diversification the Council will also seek to diversify any exposure by utilising more than one MMF. The Council will also restrict its exposure to MMFs by not exceeding 0.5% of the net asset value of the MMFs. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

4 Borrowing Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between investment and borrowing rates. The interest rate forecast provided in **Annex D** indicates that an acute difference between investment and borrowing rates is expected to continue. This difference creates a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Council’s wider financial position.

4.2 The Council intends to reduce its investment balances and to rely on internal borrowing as much as possible instead of undertaking external borrowing from the Public Works Loan Board (PWLB). This is sustainable while the Council has sufficient balances and reserves to avoid the need for external borrowing. By essentially lending its own funds to itself the Council is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances. If cash is required for short term cash flow purposes, the Council intends to access temporary loans through the market which are readily available at very attractive rates.

4.3 However, the level of internal borrowing in relation to the level of the Council’s reserves and balances will be monitored throughout the year with a view to externalising borrowing if required. Capital expenditure levels, market conditions and interest rate levels will also be monitored throughout the year to ensure that external borrowing is undertaken at the right time if required.

4.4 While the Council can borrow from a number of banks, it normally only borrows from the Public Works Loan Board (PWLB) which is a Government body that lends to public sector organisations. In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities
- Commercial Banks
- European Investment Bank
- Money Markets
- Capital markets (stock issues, commercial paper and bills)

- Structured finance
- Leasing

5 Debt Rescheduling

5.1 The Council is able to pay off loans earlier than we have to and to replace them with cheaper loans if we want to in order to save money or to reduce the risk to the Council. Sometimes, we will replace these loans and sometimes not, depending on market conditions and interest rates.

5.2 Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy. The Council will consult in advance with Arlingclose the strategy and framework within which debt will be repaid/rescheduled if opportunities arise.

5.3 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertaken meaningful debt rescheduling although occasional opportunities arise.

5.4 Borrowing and debt rescheduling activity undertaken during the year will be reported as part of the Capital Plan Monitoring Report.

6 Minimum Revenue Provision (MRP) Statement

6.1 The Council sets aside money each year to repay debt and this is known as the Minimum Revenue Provision (MRP). In 2013/14, this will be £8.2m.

6.2 There are four different methods of calculating MRP and the Council needs to say each year which methods it will use. This is known as the MRP Statement.

6.3 The MRP Statement will be submitted to Council before the start of the 2013/14 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

6.4 **MRP Statement**

The Council will apply the Regulatory Method for supported capital expenditure which means that MRP is charged at 4% of the Council's Capital Financing Requirement.

The Council will apply the Asset Life Method for unsupported capital expenditure which means that MRP is determined by the life of the asset for which the borrowing is undertaken.

The different methods of calculation will affect how much money the Council sets aside for debt repayment. The above statement means that where the Welsh Government gives us the money to repay debt we will repay it at 4% of whatever is outstanding. Where we borrow through Prudential Borrowing we will charge an amount that lets us repay the debt over the expected life of the asset.

6.5 Adopting International Financial Reporting Standards (IFRS) has resulted in leases and Private Finance Initiative (PFI) schemes coming on the balance sheet. This affects how much it appears the Council has borrowed but this is effectively covered by grant payments. MRP in respect of leases and PFI schemes brought on the balance sheet under IFRS will match the annual principal repayment for the associated deferred liability. This is a technical accounting adjustment which is cost neutral for the Council.

6.6 MRP on Housing assets is made in accordance with statutory requirements (the General Determination of the Item 8 Credit and Item 8 Debit).

7 Reporting Treasury Management Activity

The Section 151 Officer (Head of Finance & Assets) will report to the Corporate Governance Committee on treasury management activity / performance as follows:

(a) The Treasury Management Strategy Statement and Prudential Indicators will be submitted to the committee in February each year prior to approval by Council.
(b) Two treasury management updates will be submitted to the committee in July and December each year.
(c) An annual report on treasury activity will be submitted to the committee in September each year for the preceding year prior to approval by Cabinet.

A treasury update will also be included in the monthly Revenue Monitoring report and borrowing will be reported on in the Capital Plan to Council.

8 Other items

8.1 Member Training

The CIPFA Code of Practice on Treasury Management requires the Section 151 Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

The Council has nominated the Corporate Governance Committee as the committee which has responsibility for scrutiny of the treasury management function. Annual training requirements will be agreed with the Corporate Governance Committee.

8.2 Treasury Management Consultants

The Council uses Arlingclose Ltd as Treasury Management Consultants and receives the following services:

- Credit advice
- Investment advice
- Borrowing advice
- Technical accounting advice
- Economic & interest rate forecasts
- Workshops and training events

The Council maintains the quality of the service with its advisors by holding quarterly strategy meetings and tendering every 5 years. The current contract with Arlingclose is until 31 December 2013 at which point a tendering exercise will be undertaken.

8.3 Housing Revenue Account Subsidy Reform

The Welsh Government is in negotiations with HM Treasury regarding the reform of the HRA subsidy system in Wales. Details of the precise mechanism & timing are not available at this stage. The authority will monitor developments in this area as further details become available. It is likely the changes will be implemented from 2014/15.

8.4 Impact of Corporate Plan

Annex E outlines the likely impact of the Corporate Plan on this strategy and on the Prudential Indicators.

ANNEX A

PRUDENTIAL INDICATORS 2013/14 TO 2015/16

1 Background

The indicators are calculated to demonstrate that the Council's borrowing is affordable and are underpinned by the following regulations. There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2 Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Section 151 Officer reports that the Council had no difficulty meeting this requirement in 2012/13 to date nor are there any difficulties envisaged in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3 Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2012/13 Approved £000	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Council Fund	34,779	34,577	15,894	6,740	4,970
HRA	7,452	7,452	4,998	5,148	5,302
Total	**42,231**	**42,029**	**20,892**	**11,888**	**10,272**

NB The Council Fund indicators are based on the latest proposed capital bids and block allocations and these will be updated before the report is submitted to Council for approval on 26 February 2013. Note the most significant movement between years relates to grant funding.

The Housing Revenue Account indicators have been calculated based on the latest estimates from the Housing Stock Business Plan which this year includes a revised Stock Condition Survey which will inform capital expenditure over the next 5-10 years. These will be updated in accordance with the budget approved by Cabinet at its meeting of 19 February 2013.

3.2 Capital expenditure will be financed as follows:

Capital Financing	**2012/13 Approved £000**	**2012/13 Revised £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**
Council Fund					
Capital Receipts	1,147	826	77		
Grants & Contributions	13,174	18,908	7,086	2,586	1,841
Revenue Contributions					
Supported Borrowing	9,721	6,992	4,505	2,947	2,864
Prudential Borrowing	10,737	7,851	4,226	1,207	265
Total	**34,779**	**34,577**	**15,894**	**6,740**	**4,970**
HRA					
Capital Receipts	17	18	19	20	20
Grants & Contributions	2,400	2,400	2,400	2,400	2,400
Revenue Contributions	565	539	1,005	575	1,004
Supported Borrowing					
Prudential Borrowing	4,470	4,495	1,574	2,153	1,878
Total	**7,452**	**7,452**	**4,998**	**5,148**	**5,302**

4 Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. It shows how much of its budget the Council uses to repay debt and interest.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2012/13 Approved £000**	**2012/13 Revised £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**
Financing Costs	12,257	12,280	12,192	12,383	12,002
Net Revenue Stream	177,379	177,379	180,195	181,000	181,000
Non-HRA Ratio	**6.91%**	**6.92%**	**6.77%**	**6.84%**	**6.63%**
Financing Costs	2,649	2,671	2,971	3,056	3,171
Net Revenue Stream	11,874	11,869	12,573	12,866	13,375
HRA Ratio	**22.31%**	**22.50%**	**23.63%**	**23.75%**	**23.71%**

5 Capital Financing Requirement

5.1 The Capital Plan relies on various sources of finance i.e. grants, contributions and capital receipts. Once these are used up, we need to rely on borrowing and the Capital Financing Requirement (CFR) is the amount we need to borrow. Our borrowing shouldn’t therefore go above the CFR. The Council’s CFR and borrowing levels are compared in the table below for the current and future years.

Capital Financing Requirement	31/03/13 Approved £000	31/03/13 Revised £000	31/03/14 Estimate £000	31/03/15 Estimate £000	31/03/16 Estimate £000
Council Fund	151,245	145,655	147,132	143,972	139,914
HRA	28,696	28,949	28,901	29,355	29,426
Total CFR	**179,941**	**174,604**	**176,033**	**173,327**	**169,340**
Total Debt	**158,197**	**133,269**	**141,953**	**142,169**	**144,521**

Note that the projected debt level at 31/03/13 was estimated to be £25m higher than the current estimate because the original estimate was based on the capital expenditure in the Capital Plan to be funded by borrowing for 2012/13. In practice, the Council has been internally borrowing as discussed earlier in the report and has not undertaken any external borrowing this year.

5.2 The move to International Financial Reporting Standards (IFRS) has resulted in the Council's Private Finance Initiative (PFI) being brought onto the Balance Sheet and this has resulted in an increase in the CFR as illustrated in the table below:

Capital Financing Requirement	31/03/13 Approved £000	31/03/13 Revised £000	31/03/14 Estimate £000	31/03/15 Estimate £000	31/03/16 Estimate £000
Council Fund	151,245	145,655	147,132	143,972	139,914
HRA	28,696	28,949	28,901	29,355	29,426
PFI	10,676	10,676	10,564	10,475	10,425
Total CFR	**190,617**	**185,280**	**186,597**	**183,802**	**179,765**

6 Incremental Impact of Capital Investment Decisions

6.1 This indicator shows how much of the Council Tax income is spent on paying debt interest.

Incremental Impact of Capital Investment Decisions	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax due to:				
Prudential Borrowing	10.12	0.85	0.00	0.00
Capital Receipts	0.46	0.02	0.00	0.00
Reserves	0.00	0.00	0.00	0.00
Total	**10.58**	**0.87**	**0.00**	**0.00**
Average Weekly Housing Rents	1.69	1.67	1.01	0.95

Between 2007/08 and 2012/13, the Council has budgeted to undertake a total of £32.0m prudential borrowing. The cumulative impact of this has been an increase in Council Tax of £70.08.

This indicator shows the equivalent impact on Council Tax of the decision to undertake Prudential Borrowing as well as the investment interest lost by using capital receipts and reserves to part fund the Capital Plan. The impact of supported borrowing has not been included because it is assumed that the Council would always spend its supported borrowing to fund its Capital Plan.

The increases in council house rents reflect the additional costs of financing the borrowing to be undertaken each year as part of the Housing Stock Business Plan with the aim to attain the Welsh Housing Quality Standard during 2013. The indicator illustrates the impact of each year's capital expenditure and new borrowing on weekly rents.

7 Authorised Limit & Operational Boundary for External Debt

7.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external borrowing. It is measured on a daily basis against all external borrowing items on the Balance Sheet i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices. This is reported as a part of the Capital Monitoring Report.

7.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit) and if it is breached, it would be reported to the next Council meeting.

Authorised Limit for External Debt	2012/13 Approved £000	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/15 Estimate £000
Borrowing	180,000	155,000	165,000	165,000	165,000

7.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	2012/13 Approved £000	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Borrowing	175,000	150,000	160,000	160,000	160,000

8 Adoption of the CIPFA Treasury Management Code

8.1 This indicator demonstrates that the Council has adopted the principles of best practice. The Council adopted the original Code in March 2002. A revised Code was issued in November 2009 and another in November 2011. One of the recommendations is that the Code is adopted by Council.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the revised CIPFA Treasury Management Code (Nov 2011) at its meeting on 28 February 2012.

9 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

9.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on a net interest paid basis (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments).

9.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	2012/13 Approved %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100
Upper Limit for Variable Rate Exposure	40	40	40	40

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council’s treasury management strategy.

10 Maturity Structure of Fixed Rate borrowing

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Actual %	Lower Limit %	Upper Limit %
under 12 months	1.13	0	10
12 months and within 24 months	4.24	0	10
24 months and within 5 years	6.01	0	20
5 years and within 10 years	11.41	0	25
10 years and above	77.21	50	100

11 Credit Risk

11.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council’s assessment of counterparty credit risk.

11.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country’s net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.4 The only indicators with prescriptive values are credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

12 Upper Limit for total principal sums invested over 364 days

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
	6.00	6.00	6.00	6.00

ANNEX B

Specified and Non-Specified Investments

Investment	Specified	Non-Specified	Maximum Specified Counterparty Limit (£m)
Term deposits with UK banks and building societies	✓	✓	8
Term deposits with non UK banks and building societies	✓	✓	5
Term deposits with other UK local authorities	✓	✓	No limit
Investments with Registered Providers	✓	✓	5
Certificates of deposit with UK banks and building societies	✓	✓	8
Certificates of deposit with non UK banks and building societies	✓	✓	5
Gilts	✓	✓	No limit
Treasury Bills (T-Bills)	✓	×	No limit
Bonds issued by Multilateral Development Banks	✓	✓	5
Local Authority Bills	✓	×	No limit
Commercial Paper	✓	×	5
Corporate Bonds	✓	✓	5
AAA rated Money Market Funds	×	✓	*
Other Money Market and Collective Investment Schemes	✓	✓	5
Debt Management Account Deposit Facility	✓	×	No limit

***** Investments in Money Market Funds are classified as non-specified investments in Wales because the regulations state that they must be accounted for as capital expenditure. Investments in each Money Market Fund should be limited to 10% of the Council's total investments rounded up to the next £million e.g. if the total investments are £25m, then the limit in each fund would be £2.5m rounded up to £3m.

ANNEX C

Recommended Sovereign and Counterparty List

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit (£m)
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	8
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	8
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	8
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	8
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	8
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	8
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	8
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	8
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	8
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	5
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	5
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	5
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	5
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	5
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	5
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	5
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	5

Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	5
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	5
Term Deposits / CDs / Call Accounts	France	BNP Paribas	5
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	5
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	5
Term Deposits / CDs / Call Accounts	France	Société Générale	5
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	5
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	5
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	5
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	5
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	5
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	5
Term Deposits / CDs / Call Accounts	US	JP Morgan	5

NB Non-UK Banks - Investments with non-UK banks should be limited to £10m in total.

NB Group Limits - For institutions within a banking group, a limit of 1.5 times the individual limit of a single bank within that group will apply.

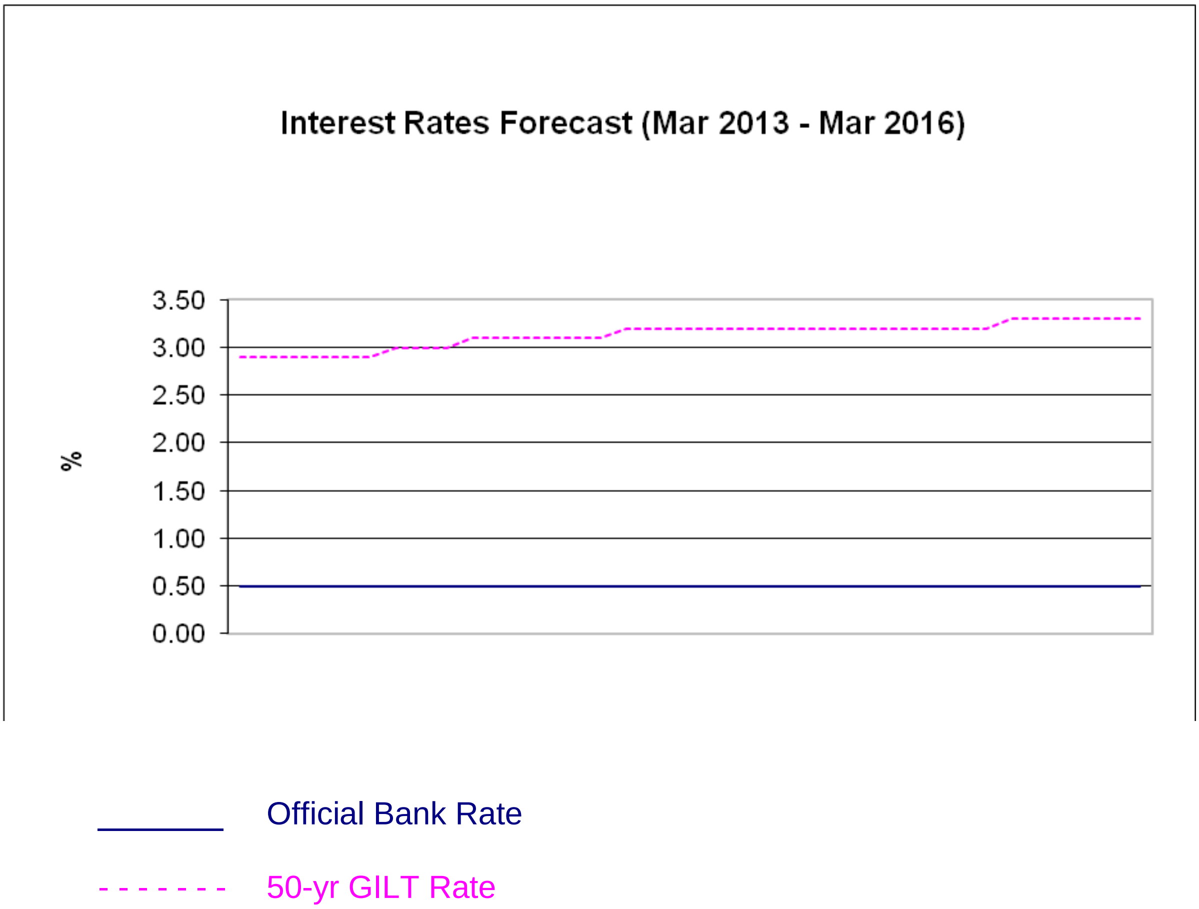
Treasury Management Strategy Statement
and Investment Strategy 2013/14 to 2015/16

ANNEX D

INTEREST RATES FORECAST

The graph below shows the interest rate forecast for the Official UK Bank Rate and the 50 year GILT rate from March 2013 to March 2016. The Official Bank Rate influences the rate at which the Council can invest. The GILT rate is the rate at which the Government borrows money and therefore this affects the rate at which we can borrow from the PWLB which is approximately 1% above GILT rates.

As the graph shows, it's much more expensive to borrow than to invest at the moment with the Official UK Bank Rate expected to remain at 0.5% for some time. The graph illustrates that the difference between investment and borrowing rates is approximately 3%. This means that the cost of carry referred to in paragraph 4.1 in **Appendix 1** is approximately £30,000 for every £1m borrowed because the Council could borrow for 50 years at a rate of approximately 4% but could only invest at a rate of approximately 1%.



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ANNEX E

IMPACT OF CORPORATE PLAN

1 Introduction

The Corporate Plan 2012-17 sets out the following priorities over the next five years and outlines that we will need to invest somewhere in the region of an additional £134m of capital funding in our priorities over the next five years.

The Plan is ambitious but is affordable. It is vital that a robust treasury management and governance framework is in place to support the Plan. The following paragraphs outline the key treasury issues that will be considered as the Plan develops.

1.1 Developing the local economy

We predict that the council will invest an additional £2m in this priority over the next 5 years.

1.2 Improving performance in education and the quality of our school buildings

We already have an agreed 21st Century Schools Programme that will cost £74m to deliver, of which we expect £37m to come from the Welsh Government. In addition, we aim to invest a further £23m on implementing our area reviews, refurbishments and other improvements to our schools.

1.3 Improving our roads

This priority will receive further investment of £10.4m over the period of the Corporate Plan which is in addition to the additional investment already agreed for 2012-13.

1.4 Vulnerable people are protected and are able to live as independently as possible

We estimate a need for three extra care facilities which will cost approximately £7m each. We expect a significant proportion of this cost to be shared with private sector partners and Registered Social Landlords. We also expect to invest an additional £500k into Cefndy Enterprises. This equates to an additional investment of £21.5m in this priority over the next 5 years.

1.5 Clean and tidy streets

This priority can be addressed without the need for large, additional capital investment.

1.6 Ensuring access to good quality housing

Much of the investment needed to deliver this priority will come from the existing housing budgets.

1.7 Modernising the council to deliver efficiencies and improve services for our customers

Over the next 5 years, we expect to invest approximately £4m of additional capital funding to deliver this priority.

2 Impact on Treasury Management Strategy

2.1 Investment Strategy

It is expected that we will need to borrow somewhere in the region of £53m to fund the Corporate Plan over the next 5 years. The exact timing of the borrowing is not yet known but this will have an impact on the investment strategy because we will need to decide if we are going to use up our investment cash first before borrowing externally. If we run our investment cash down to nil, this will have an impact on our investment returns but this is likely to make financial sense in the current climate because the cost of borrowing is far higher than the return we can earn on our investments.

2.2 Borrowing Strategy

As stated above, it is cheaper for us to delay borrowing externally as long as possible in the current climate so this strategy is likely to continue in the medium term. This is sustainable while we have a sufficient level of balances and reserves to use up but at some point during the period of the Corporate Plan, it will become necessary to start to borrow externally. We will however monitor interest rates before this point to ensure that we don’t miss out on the relatively low rates which are available at the moment. Some of the borrowing will be repaid during the course of the Corporate Plan.

3 Impact on Prudential Indicators

3.1 Estimates of Capital Expenditure

It is assumed that we will invest approximately £134m in the Corporate Plan over 5 years and that we will need to borrow somewhere in the region of £53m but the exact timing is unknown. This will result in an increase in the capital expenditure over the period of the Corporate Plan. The proposed schemes are still at the planning stages currently. As the details of the schemes become available and are formally approved in the Capital Plan, they will be built into the Prudential Indicators and reported to members in the annual Treasury Management Strategy Statement each February.

3.2 Ratio of Financing Costs to Net Revenue Stream

Of course all of this money will have to be repaid so our financing costs will increase as we undertake more borrowing but this will be monitored to ensure that our borrowing plans are affordable. We have experience of using prudential borrowing and we have used it successfully in the past to invest in our roads and housing stock and other assets.

3.3 Capital Financing Requirement & Actual External Debt

Over the period of the Corporate Plan, the Capital Financing Requirement will increase as our underlying need to borrow increases but again, this will be carefully monitored to ensure affordability.

3.4 Incremental Impact of Capital Investment Decisions

There is likely to be some impact on Council Tax but the residents will see a benefit as a result of the increased capital investment in the County. Although there are risks attached to any significant level of capital spending, we believe that the risks of not investing in our priorities are even greater. If we chose not to invest in our priorities, our residents would see a deterioration in the standard of our roads and schools and we would need to spend more and more money just to be able to maintain existing standards.

3.5 Authorised Limit & Operational Boundary for External Debt

The borrowing limits will be increased to accommodate the additional borrowing required to fund the Corporate Plan and the borrowing levels will be monitored to ensure that we remain within these limits.

Treasury Management Strategy Statement
and Investment Strategy 2013/14 to 2015/16

GLOSSARY - Useful guide to Treasury Management Terms and Acronyms

Bank of England	UK's Central Bank
Bank Rate	Bank of England Interest Rate (also known as Base Rate)
CPI	Consumer Price Index – a measure of the increase in prices
RPI	Retail Price Index – a measure of the increase in prices
DMO	Debt Management Office – issuer of gilts on behalf of HM Treasury
FSA	Financial Services Authority - the UK financial watchdog
GDP	Gross Domestic Product – a measure of financial output of the UK
GILTS	Investments issued by UK Government which pay a fixed cash payment to the holder
LIBID	London Interbank Bid Rate - International rate that banks lend to other banks
LIBOR	London Interbank Offer Rate – International rate that banks borrow from other banks (the most widely used benchmark or reference for short term interest rates)
PWLB	Public Works Loan Board – a Government department that lends money to Public Sector Organisations
MPC	Monetary Policy Committee - the committee of the Bank of England that sets the Bank Rate
Long term rates	More than 12 months duration
Short term rates	Less than 12 months duration