CARLISLE CITY COUNCIL
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REPORT TO AUDIT COMMITTEE

PORTFOLIO AREA: FINANCE

Date of Meeting: 15 January 2010

Public

Key Decision: Yes **Recorded in Forward Plan: Yes**

Inside Policy Framework

Title:	**DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2010/11**
Report of:	**The Director of Corporate Services**
Report reference:	**CORP57/09**

Summary:

This report sets out the Council's Draft Treasury Management Strategy Statement (TMSS) for 2010/11, in accordance with the CIPFA Code of Practice on Treasury Management. The draft Investment Strategy and the draft Minimum Revenue Provision (MRP) Strategy for 2010/11 are also incorporated as part of the Statement. So too are the draft Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities. The final version of the Strategy will be issued following the consultation period on the draft budget for 2010/11. There are no substantive changes to the form and content of the Statement as compared to last year although the final version of the Strategy will incorporate some changes arising from revised guidance on treasury matters that has since been received in draft form from the DCLG.

The report was considered by the Executive on 17 December 2009.

Recommendations:

The Audit Committee is asked to comment on the draft Treasury Management Strategy Statement incorporating the draft Investment Strategy and the draft MRP Strategy, together with the Prudential Indicators for 2010/11, for draft budget consultation purposes as set out in Appendix A.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: CIPFA Code of Practice on Treasury Management (2001) and various briefing notes from Sector Treasury Services; the CIPF Prudental Code for Capital Finance in Local Authorities.

CORP57/09 – Summary

This report sets out in draft the Council's proposed Treasury Management Strategy Statement for 2010/11, a duty that is incorporated within the CIPFA Code of Practice on Treasury Management. The Statement embraces within it the Council's Annual Investment Strategy, which is a requirement of the Government's Investment Guidance regulations that were issued in 2004 and the Minimum Revenue Provision Strategy. The report also includes the draft Prudential Indicators that the Council must set each year to ensure that its capital investment plans are prudent, affordable and sustainable. The Council must, under the Local Government Act 2003 and supporting regulations, 'have regard to' the Prudential Code in setting these indicators.

The Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Strategies are all included in Appendix A. This part of the report also reviews the economic outlook in the next financial year and the possible impact this could have upon the Council's borrowing and investment activities. Also included are the forecast prudential indicators as required under the Prudential Code.

Appendix B contains a schedule of the types of investment vehicle that the Council may use to place its surplus funds.

Appendix C sets out various forecasts of interest rates in the period covered by the report that have been used to inform the strategies contained within the Statement. Revised projections will be available by the time the final version of the Strategy is presented in the New Year but it is unlikely that they will be very different to the rates currently indicated.

Appendix D sets out more information on the stock issue, which dates from 1995 and is not due to mature until 2020.

CITY OF CARLISLE

To: The Audit Committee CORP57/09
15 January 2010

DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2010/11

1. INTRODUCTION

1.1 The CIPFA Code of Practice on Treasury Management in Local Authorities was first issued in 1992 and updated in 1996 and more recently in December 2001. The City Council formally adopted the current Code in March 2002.

1.2 Under the requirements of the Code, the Council will receive each year the following reports:-

- Annual strategy and plan in advance of the year
- Annual report after its close.

2. TREASURY MANAGEMENT STRATEGY STATEMENT

2.1 As required under the Code, the draft Treasury Management Strategy Statement for 2010/11, which also incorporates both the Investment Strategy for that year and the Minimum Revenue Strategy, is set out in **Appendix A**. The final Strategy Statement will be issued following the consultation period on the draft budget for 2010/11. The schedule of approved investment vehicles is contained in **Appendix B**. **Appendix C** includes a summary of current economic forecasts on interest rates that have been utilised in preparing the Strategy. **Appendix D** contains detail on the Council's stock issue which dates from 1995 and is not due to mature until 2020.

2.2 Also included within Appendix A are the **draft Prudential Indicators** that must be determined under the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements came into operation on 1 April 2004 under the provisions of the Local Government Act 2003. Part 1 of the Act allows a local authority to borrow money for any purpose that is within its control or for the purposes of the prudent management of its financial affairs. The main purpose for borrowing money is to fund capital expenditure although some short-term borrowing is permitted to cover temporary cash flow needs.

2.3 Since 1 April 2004 there has been no statutory limit to the amount that can be borrowed. There is, however, a requirement for full compliance with CIPFA's Prudential Code; the key objectives of which are to demonstrate that the proposed capital investment plans have been assessed by the Council as affordable, prudent and sustainable. Section 3(1) of the Act puts a duty on the Council to determine before the start of the financial year and keep under review the maximum amount that it can afford to borrow. This amount is called the **Authorised Limit** and is discussed in Appendix A.

2.4 The Prudential Indicators will be monitored via the quarterly Treasury Management monitoring reports.

3. CONSULTATION

3.1 The Council has appointed Sector Treasury Services as its Treasury Advisers and they have been involved in the Strategy and proposals contained within this report.

4. RECOMMENDATIONS

4.1 The Audit Committee is asked to approve the draft Treasury Management Strategy Statement incorporating the draft Investment Strategy and the draft Minimum Revenue Strategy and Prudential Indicators for 2010/11 as set out in Appendix A for draft budget consultation purposes.

5. IMPLICATIONS

- Staffing/Resources – Not applicable.

- Financial – Included within the report.

- Legal – Not applicable.

- Corporate – Not applicable.

- Risk Management – Management of risk is one of the guiding principles of both the Code of Practice on Treasury Management and the Prudential Code. The Investment Strategy also embraces the principles of risk management.

- Equality Issues – Not applicable.

- Environmental – Not applicable.

- Crime and Disorder – Not applicable.

- Impact on Customers – Not applicable.

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Director of Corporate Services

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APPENDIX A

CARLISLE CITY COUNCIL
DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2010/11

1. INTRODUCTION

1.1 The Council is required to approve an annual Treasury Management Strategy Statement under the CIPFA Code of Practice on Treasury Management, which was adopted by the Council in March 2002. The 2003 Prudential Code for Capital Finance in local authorities introduced new requirements for the manner in which capital spending plans are to be considered and approved and in conjunction with this, the development of an integrated treasury management strategy.

1.2 The Prudential Code requires the Council to set a number of Prudential Indicators, certain of which replace the borrowing/variable interest limits previously determined as part of the strategy statement, whilst also extending the period covered by the Strategy from one to three years. This report therefore incorporates the indicators to which regard should be given when determining the Council's treasury management strategy for the next three financial years.

1.3 The suggested strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury consultants. The strategy covers the following issues:

- Treasury limits in force that will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- Current treasury position;
- Borrowing requirement and minimum revenue provision;
- Prospects for interest rates;
- Borrowing strategy considerations;
- Debt rescheduling opportunities.
- Investment Strategy
- Minimum Revenue Provision Strategy

1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby higher revenue costs arising from:

(a) higher interest charges caused by increases in borrowing to finance additional capital expenditure
(b) any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2. <u>TREASURY LIMITS 2010/11 TO 2012/13</u>

2.1 It is a statutory duty, under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to decide and keep under review how much it can afford to borrow. The amount determined is termed the ‘Affordable Borrowing Limit’.

2.2 The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit. This essentially requires it to ensure that total capital investment remains within sustainable limits and in particular, that the impact upon its future council tax levels is ‘acceptable’. It is important to understand, however, that the Indicators themselves, which are set out in paragraph 3, do not have an inherently right or wrong answer. They are not intended as comparator information between different authorities but are designed to support and record local decision making.

3. PRUDENTIAL INDICATORS

3.1 The Prudential Indicators have been based on current projections for capital spending and resources in 2010/11 to 2012/13. The Council has ensured that future years' capital programmes have been set in accordance with the principles contained within the City Council's Capital Strategy and Asset Management Plan.

PRUDENTIAL INDICATOR	2008/09	2009/10	2010/11	2011/12	2012/13
AFFORDABILITY INDICATORS	**actual**	**revised estimate**	**estimate**	**estimate**	**estimate**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Capital Expenditure	5,563	15,492	6,747	5,602	3,305
Ratio of financing costs to net revenue stream	(3.9%)	3.5%	5.8%	5.4%	4.7%
Net borrowing requirement in year	Nil	Nil	Nil	Nil	Nil
Capital Financing Requirement as at 31 March	1,905	4,494	8,101	8,534	9,316
Annual change in Cap. Financing Requirement	N/A	2,589	3,607	433	782
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	N/A	N/A	6.08	12.24	14.38

3.2 The estimates of financing costs include both current capital commitments and the draft capital programme as presented elsewhere on the agenda. The level of financing costs assumes a total of borrowing no greater than the amount forecast to be supported by revenue support grant. In the case of this authority, it is assumed that any support from central government towards the costs of capital expenditure programmes in the next three years will be by means of a capital grant.

3.3 The capital financing requirement measures an authority's underlying need to borrow for a capital purpose. The City Council is not, at this stage, anticipating the need to undertake any borrowing for capital purposes in the period under review but this remains a possibility, particularly if it is deemed necessary as a part of the Sands redevelopment scheme. If this is the case, then allowance will have to be made within the Council's Authorised and Operational borrowing limits.

PRUDENTIAL INDICATOR	2008/09	2009/10	2010/11	2011/12	2012/13
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**actual**	**revised estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Authorised Limit for external debt -					
borrowing	22,500	22,500	22,500	22,500	22,500
other long term liabilities	100	100	100	100	100
TOTAL	22,600	22,600	22,600	22,600	22,600
Operational Boundary for external debt -					
borrowing	17,500	17,500	17,500	17,500	17,500
other long term liabilities	100	100	100	100	100
TOTAL	17,600	17,600	17,600	17,600	17,600
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing/ investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing/ investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over one year	50%	50%	50%	50%	50%

Maturity structure of any fixed rate borrowing during 2010/11	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

3.4 In respect of its external debt, it is recommended that the Council approves the above authorised limit for its total external debt, gross of investments, for the next three financial years. The limit separately identifies borrowing from other long term liabilities such as finance leases. The Council will be is asked to approve these limits and to delegate authority to the Assistant Director (Resources) the Council's S151 officer from 17 December 2009, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities in accordance with option appraisal and best value for money. Any such change would be reported to the next available Council meeting.

3.5 The authorised limit is consistent with the authority's current commitments, plans and proposals for capital expenditure and its financing. **However the overall authorised limit is not to be exceeded without prior Council approval.**

3.6 The operational boundary is based upon the same estimates as the authorised limit but without the headroom included within the authorised limit to allow for unusual cash movements. As with the authorised limit, the Council is asked to delegate authority to the Assistant Director (Resources) to effect movement between the separately agreed limits for borrowing and other long-term liabilities. The operational boundary can be exceeded in exceptional circumstances without prior Council approval providing that it remains within the authorised limit.

3.7 The City Council's current limits for maximum levels of fixed and variable rate funding are both 100% and this is as recommended by the treasury advisers.

3.8 Prudence and Sustainability

(a) The City Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services.

(b) Specified Investments
The current minimum level of specified investments is set at 50%. It is recommended that this level be continued into 2010/11.

3.9 Monitoring of the Prudential Indicators will be incorporated into the quarterly Treasury Transaction reports presented to the Executive.

4. CURRENT PORTFOLIO POSITION

The Council's treasury portfolio position at 9 December 2009 comprised:

Debt		Principal		Av. Rate
		£m	£m	%
Fixed Rate Funding	PWLB	Nil		
	Market	15.1	15.1	8.76
Variable Rate Funding			Nil	Nil
Other Long Term Liabilities			Nil	Nil
TOTAL DEBT			**15.1**	**8.76**
In House Investments			35.05	1.64
Externally Managed Investments			Nil	Nil
TOTAL INVESTMENTS			**35.05**	**1.64**

5. THE MINIMUM REVENUE PROVISION STRATEGY

5.1 No requirement is currently anticipated to undertake any long term borrowing in either 2009/10 or 2010/11 although the authority will need at this stage to keep its options open. This is particularly so if the Sands development or any other major capital project requires an element of long term borrowing as part of the overall funding package.

5.2 Notwithstanding this possibility, the City Council is still obliged to make proper provision for the repayment of its outstanding debt. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. land, buildings, vehicles etc. It would usually be impractical to charge the entirety of such expenditure, which is often funded by borrowing, to the revenue account in the year it was incurred. Instead this is spread over a longer period to try and match the years over which these assets will benefit the community. The manner of spreading these costs through the Minimum Revenue Provision (MRP). Until recently, the MRP was calculated according to detailed and complex regulations. It is now determined under Guidance.

5.3 The only statutory duty that a local authority has under the new MRP regime is *'to determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'*. The Guidance, which authorities must 'have regard to' provides four options for calculating the MRP as set out below. It is important to realise, however, that there is no obligation to follow any of these options and that it is up to each authority to decide upon the most appropriate method of making a prudent provision, having had regard to the Guidance.

5.3.1 Regulatory Method (Option 1)
This method is based upon the Regulations that were first promulgated in 2003 for the calculation of the MRP. It is based upon 4% of the authority's capital financing requirement (CFR). The CFR is a measure of the authority's level of outstanding debt. From this sum, the authority may subtract (if it is a negative figure) a technical adjustment known as 'Adjustment A'

5.3.2 Capital Financing Requirement Method (Option 2)
This is very similar to the regulatory method but it does not take account of Adjustment A.

Option 2 is the method currently approved by the City Council for use in 2009/10. The City Council's Adjustment A was a positive figure and it is allowed in such circumstances to disregard Adjustment A. To use Option 1 would have incurred an increased MRP liability for the City Council.

Options 1 and 2 can be used for borrowing incurred before 1 April 2008, whether supported or unsupported, and for supported borrowing after that date. Supported borrowing is borrowing that is notionally funded within the revenue support grant allocation. The Council may therefore use either option 1 or option 2 but because of the 'Adjustment A' factor, option 2 has previously been recommended.

5.3.3 Asset Life Method (Option 3)

5.3.4 Depreciation Method (Option 4)

One of these methods may be used for new schemes that require the Council to undertake any unsupported borrowing after 1 April 2008. They are fairly similar except that option 3 is based upon the estimated life of an asset whilst option 4 assumes that an asset will still be worth something after its useful life has expired. They can, however, also be used for supported borrowing incurred either before or after that date. To date, this authority has not undertaken any unsupported borrowing.

5.4 The authority has no plans at present to undertake any borrowing which is either supported or unsupported. Options 3 and 4, moreover, are particularly appropriate where assets can be identified that match past borrowing decisions. This situation does not apply to the City Council.

5.5 The City Council implemented the new MRP guidance in 2008/09. In that year its MRP charge was Nil because its opening CFR was also Nil. In 2009/10, the opening CFR was £1.9m which will result in an MRP of £76,000 (4% of the CFR) in this financial year. In future years, the CFR will increase to the extent that capital expenditure is not met by capital grant or revenue contributions. This expenditure will, however, be met under current plans by the set aside capital receipts as the Council still possesses the cash represented by these receipts. It is unlikely to be funded from borrowing. It is therefore recommended that the Council continues to use Option 2 for its MRP calculations in 2010/11 i.e. that its MRP should remain at 4% of its CFR as at 31 March 2010.

5.6 The only caveat to this approach is that there may still be strategies that the Council could pursue to reduce the MRP charge. Following advice from Sector, a major saving in the Council's MRP (some £500,000 pa) has already been effected in the past two years. Sector have offered to carry out a further review on a 'no savings, no fee' basis and this option will be pursued. It is unlikely, in the light of the savings already achieved, that there is much scope for significant additional sums to be found but since the offer is made on a 'no savings no fee' basis then the Council's interests in this respect would be protected.

6. PROSPECTS FOR INTEREST RATES

6.1 The Council has appointed Sector Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view although it should be noted that there are some very differing views among the various economic forecasters regarding the future pattern of these rates:

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-12	Mar-13
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	3.50%	4.50%
5yr PWLB rate	2.85%	3.05%	3.20%	3.30%	3.40%	3.60%	4.60%	4.85%
10yr PWLB rate	3.90%	4.00%	4.05%	4.15%	4.30%	4.45%	5.00%	5.15%
25yr PWLB rate	4.40%	4.55%	4.65%	4.70%	4.80%	4.90%	5.20%	5.35%
50yr PWLB rate	4.45%	4.60%	4.70%	4.75%	4.90%	5.00%	5.30%	5.45%

6.2 There are two conflicting views regarding the medium term outlook for the UK economy depending upon whether or not there is a strong recovery or a weak one. The outlook for short term interest rates, and indeed medium term rates, within the UK is very dependent upon how far and how quickly the economy is able to recover. A case can be made for either scenario depending upon various assumptions regarding the future course of fiscal and monetary policy. These include the outcome of the General Election, to be held by next June, which could particularly affect the level of any tax rises, the effect of the Bank of England's quantitative easing programme, the extent to which the major banks are able to return to profitability and to restore their balance sheets and the strength of any export led recovery

6.3 Revised projections from Sector and other forecasters will be received in the coming weeks. These will be used to inform any amendments to the estimate for investment interest in the year ahead, particularly in the light of any further changes in base rate. In the meantime, the view of the Sector is a broadly neutral one between the extremes of a strong and a weak recovery but with the risk lying to the downside i.e. economic growth is more likely to be lower than expected than higher and as a consequence base rate rises could be lower or take longer to be implemented than shown in the forecast above.

7. BORROWING STRATEGY

7.1 The Council is, as stated above, not currently expecting to have any recourse to borrowing in 2010/11. It is anticipated that a combination of capital grants and internal resources will be used to meet most, if not all, capital commitments in the new financial year. Nevertheless, the use of external borrowing cannot be ruled out at this stage. This is particularly the case in respect of any future major capital projects which may require an element of external borrowing as a part of the total funding package. The Assistant Director (Resources) will therefore continue to monitor the interest rate market as regards borrowing opportunities as well as in respect of investment policy.

8. DEBT RESCHEDULING

8.1 There is unlikely to be much scope for debt rescheduling in either the current financial year or in 2010/11. Only one substantial sum of long term debt remains on the authority's books. This is the £15m stock issue which dates from 1995 and is not due to mature until 2020. The position has recently been reviewed by the Council's treasury advisers and this is discussed in more detail in Appendix D to the report. The current view, however, is that a premature repayment is not recommended because of the size of the premium payment that would be incurred. The position remains under review, however, if circumstances should change.

9. INVESTMENT STRATEGY

9.1 Principles

9.1.1 The City Council will have regard to the ODPM's Guidance on Local Government Investments (issued in March 2004) and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code") (adopted by the Council in March 2002). The Council's investment priorities are:

(a) The security of capital
(b) The liquidity of its investments

9.1.2 The Council will also endeavour to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

9.1.3 The borrowing of monies purely to invest or to on lend and make a return is unlawful and the Council will not engage in any such activity.

9.1.4 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non Specified' Investment categories. Individual counterparty limits will be set through the Council's Treasury Management Practices – Schedules which will be authorised by the Assistant Director (Resources).

9.1.5 Total investments with any one counterparty will not exceed £4m. Investments will be made only with counterparties based in the UK. While the UK government has not given a blanket guarantee on all banking deposits, it has underlined its determination to ensure the stability and security of the UK banking system through its £500bn support package to eight major named banks and building societies, a package that may also be accessed by other banks and building societies. In addition, there is an implicit guarantee through the statement of the Prime Minister that the government will do 'whatever is required' to support the UK banking system.

9.1.6 This Annual Investment Strategy states which instruments the Council may use for the prudent management of its treasury balances during the financial year under the heads of **Specified Investments** and **Non Specified Investments**. These are listed in **Appendix B**. Essentially, specified investments are those with a maturity of up to one year which have a suitable credit rating or are otherwise guaranteed e.g. by HM Government. All other investments are non specified.

9.1.7 Any investments with institutions that do not have a credit rating e.g. many smaller building societies or investments for periods over one year would be classed as non specified investments**. However it is important to stress that both the specified and non specified investments in Appendix B are perfectly legal instruments in which the City Council may invest.** This includes for example many building societies as only the larger societies have an individual credit rating although there are other criteria by which a judgement can be made as to their credit quality.

9.1.8 The minimum percentage of its overall investments that the Council will hold in specified investments is 50%.

9.2 Investment Strategy

9.2.1 With bank base rate at 0.5% and not generally expected to increase from this level until at least the summer of 2010, investment conditions will continue to be difficult. The view of Sector is that bank rate will be at the following levels at each year end:

March 2010 0.50%
March 2011 1.50%
March 2012 3.50%
March 2013 4.50%

9.2.2 Clearly, these projections can only be best estimates at this stage and the risk is to the downside i.e. if the economic recovery is slower than expected, then interest rates are like to rise more slowly. At this stage, the budget has assumed an average yield of 1.75% on its investments in the next financial year. This allows for the fact that there are some higher value investments placed in this financial year that will roll forward into 2010/11. This forecast will, however, be reviewed further during the budget cycle in case there are changes in market conditions that indicate that the forecast needs to be revised.

9.2.3 In this situation, the authority will continue to try and seek value in its investments by placing them out for longer periods where possible e.g. six months to one year, to meet future cash flow needs, subject to retaining some sums for shorter periods to meet liquidity requirements and also to take advantage of any particular investment opportunities. Much of the basic framework of the authority's cash flows is already known for the next financial year and use will be made of this information in determining investment periods. The money market is monitored daily and use will be made of a plurality of sources of financial information in determining investment opportunities. All investments will be placed only with institutions that conform to the criteria set out in the Investment Strategy.

9.2.4 The investment income budget will, as ever, be carefully monitored in the coming financial year and reported to members via the regular Treasury Transactions reports.

9.3 End of Year Investment Report

In line with current practice, the Council will receive a report on its investment activity as part of the Annual Treasury Report at the end of the financial year.

APPENDIX B

APPROVED INVESTMENT INSTRUMENTS

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. **A maximum of £4m** will be placed with any one counterparty whether by way of specified or non-specified investments except for building societies without a credit rating where **the limit will be £2m.**

Fixed Term Deposits with fixed rates and maturities:-	**Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – local authorities	--High level of security	In-house
Term deposits – U K banks**	Short-term F1 (Fitch) or P1(Moodys)	In-house
Term Deposits – UK building societies**	Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Assistant Director (Resources)	In-house
Fixed term deposits with variable rate and variable maturities: -		
Callable deposits	Short-term F1 (Fitch) or P1 (Moodys)	In-house
Certificates of deposits issued by UK banks and building societies	Short-term F1 (Fitch) or PI (Moodys)	In-house buy and hold
UK Government Gilts	Government backed	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds	Short-term AAA	In-house
2. Enhanced Cash Funds	Short-term AAA	In-house
3. Government Liquidity Funds	Short-term AAA	In-house

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

<u>Non-Specified Investments</u>:

A maximum of 50% will be held in aggregate in non-specified investments

1. Maturities of ANY period.

	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits with non credit rated UK Building Societies	As approved by the Assistant Director (Resources). Minimum asset base of £1bn	In-house	50	364 days

2. Maturities in excess of 1 year

Term deposits – local authorities	Any authority	In-house	50	3 Years
Term deposits – UK banks and building societies	Long-term A (Fitch) or A2 (Moodys)	In-house	50	3 Years
Fixed term deposits with variable rate and variable maturities				
Certificates of deposits issued by UK banks and building societies	Long-term A (Fitch) or A2 (Moodys)	In house on a 'buy and hold basis'	50	3 Years
UK Government Gilts	Government backed	In house on a 'buy and hold basis'	50	3 Years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
1. Bond Funds	Long-term AAA	In-house	50	3 Years
2. Gilt Funds	Long-term AAA	In-house	50	3 Years

The Council uses Fitch (primarily) or Moodys ratings to derive its counterparty criteria. All credit ratings will be monitored monthly. The Council is alerted to changes in credit ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

<u>APPENDIX C</u>

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from major City banks and academic institutions. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. INDIVIDUAL FORECASTS

Sector Interest Rate Forecast 23 November 2009

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.25%	2.75%	3.25%	3.50%	3.75%	4.25%	4.25%	4.50%
5yr PWLB rate	2.85%	3.05%	3.20%	3.30%	3.40%	3.60%	3.85%	4.15%	4.55%	4.60%	4.80%	4.80%	4.85%	4.85%
10yr PWLB rate	3.90%	4.00%	4.05%	4.15%	4.30%	4.45%	4.60%	4.80%	4.90%	5.00%	5.10%	5.10%	5.15%	5.15%
25yr PWLB rate	4.40%	4.55%	4.65%	4.70%	4.80%	4.90%	5.00%	5.05%	5.10%	5.20%	5.30%	5.30%	5.35%	5.35%
50yr PWLB rate	4.45%	4.60%	4.70%	4.75%	4.90%	5.00%	5.10%	5.15%	5.20%	5.30%	5.40%	5.40%	5.45%	5.45%

Capital Economics interest rate forecast – 5 November 2009

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.85%	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
10yr PWLB rate	3.75%	3.15%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%
25yr PWLB rate	4.25%	3.95%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
50yr PWLB rate	4.35%	4.15%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%	4.05%

UBS interest rate forecast (for quarter ends) – 30 October 2009

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%	2.50%	3.00%
10yr PWLB rate	3.75%	3.90%	4.05%	4.40%	4.75%	4.90%	5.15%	5.40%	5.40%
25yr PWLB rate	4.40%	4.45%	4.65%	5.00%	5.15%	5.40%	5.65%	5.90%	5.90%
50yr PWLB rate	4.50%	4.55%	4.75%	5.10%	5.25%	5.50%	5.75%	6.00%	6.00%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – October 2009 summary of forecasts of 23 City and 12 academic analysts for Q4 2009 and 2010 published in November 2009. (2010 – 2013 are based on 21 forecasts in the last quarterly forecast – November 2009).

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2009	Q4 2010	ave. 2010	ave. 2011	ave. 2012	ave. 2013
Median	0.50%	0.50%	1.30%	0.70%	1.80%	3.00%	3.70%
Highest	0.50%	0.50%	2.30%	1.30%	3.30%	4.30%	4.60%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	1.40%

Appendix D

City Council Stock Issue – Options for Repayment

The City of Carlisle Stock Issue of 1995 was a 'club' issue placed by seven different authorities working in concert. The total issue was £73m of which Carlisle's share of £15m was the second largest. The stock is due to mature in 2020 and attracts a coupon of 8.75% pa. The total cost, including expenses is 8.785% pa which equates to an annual charge of £1,317,750.

Until 2002, when the stock transfer took place, the bulk of the cost (around 70%) was a charge to the Housing Revenue Account and this cost was met by housing subsidy. Since that date, the whole of the cost has fallen on the General Fund.

The Council's treasury consultants (Sector) have recently been asked to provide an update on the possible scope for the premature repayment of the stock issue. Based on current longer term interest rates, i.e. those relating to the outstanding life of the issue (10 years) the cost of the premium is estimated at almost £6.9m. It should be noted that even this sum could well understate rather than overstate the actual cost due to the nature of the issue and the legal agreement that underpins it.

Because it is a club issue involving six authorities, the most advantageous way in which a repayment could be effected would be if all six councils could agree in concert to repay the stock. This, unfortunately, is unlikely to happen because some authorities still maintain a housing revenue account. For such authorities, a premature repayment would have an adverse effect on the council as a whole i.e. on both the housing revenue account as well as the General Fund.

This does not mean that there is no possibility of an early repayment in future years. For example, if longer term interest rates rise in the next twelve months in line with current expectations, then the cost of the premium would fall considerably, possibly to as low as £5m. While still a substantial sum, this could become more affordable, particularly if short term rates were also rising by that time. There is also the time factor to be considered. All else being equal, any premature repayment does by definition become slightly cheaper day by day as the period to full redemption gradually falls.

The stock issue and the possibility of its early redemption remains under regular review. At this stage, however, it is not recommended that the option of a premature repayment be pursued but the position be kept under regular review, particularly in the light of any major financial events e.g. the realisation of a major capital receipt.