

Swanage Town Council



Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15 (Incorporating revisions to 2011/12 Strategy)

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Glossary of Terms

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1. Background

- 1.1. The Chartered Institute of Public Finance and Accountancy's Guidance for Smaller Public Organisations on the Application of the CIPFA Code of Practice for Treasury Management in the Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.
- 1.2 The purpose of this TMSS is, therefore, to approve:
- revisions to Treasury Management Strategy for 2011/12
 - Treasury Management Strategy for 2012/13
 - Annual Investment Strategy for 2012/13
- 1.3 Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.4 As per the requirements of the Prudential Code, the Authority adopted the CIPFA Treasury Management Code at its Extraordinary Meeting of the Council on 29th November 2010.
- 1.5 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Balance Sheet and Treasury Position

- 2.1 Capital Financing and Usable Reserves are the core drivers of the Authority's Treasury Management activities.
- 2.2 The Authority's current level of debt and investments is set out at Appendix A.
- 2.3 The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

Gross to Net Borrowing Requirement (Projections)					
	Actual 31-Mar-11 £000s	Estimated 31-Mar-12 £000s	Estimated 31-Mar-13 £000s	Estimated 31-Mar-14 £000s	Estimated 31-Mar-15 £000s
External Borrowing & Other Long Term Liabilities (at Nominal Value)	(8)	0	0	0	0
Balances & Reserves* (incl. £2m LAMIT)	6,969	7,046	6,893	6,492	6,661
(Net Borrowing Requirement)/ Investment Capacity	6,961	7,046	6,893	6,492	6,661

2.5 Table 1 shows that the capital expenditure plans of the Authority can be funded entirely from sources other than external borrowing.

2.6 Estimates of Capital Expenditure: The Council will ensure the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

	2011/12 Approved £	2011/12 Revised £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Capital Expenditure	574,000	289,555	416,000	690,500	100,000

2.7 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved £	2011/12 Revised £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Capital receipts	474,000	289,555	191,000	268,500	-
Government Grants	-	-	-	-	-
Revenue contributions (Earmarked Reserves)	-	-	125,000	322,000	-
Revenue contributions (General Fund)	100,000	-	100,000	100,000	100,000
Total Financing	574,000	289,555	416,000	690,500	100,000

3. Interest Rate Forecast

3.1 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at *Appendix B*. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

4. Borrowing Strategy

4.1. Local Council borrowing is governed by Schedule 1 to the Local Government Act 2003. Parish & Town Councils in England have to apply and receive approval from the Secretary of State before taking up any borrowing. Certain temporary borrowings do not require borrowing approval. The amount that an individual town council will be authorised to borrow will normally be limited to a maximum of £500,000 in any single

financial year. Borrowing may only be entered into for a purpose that would be capital expenditure as defined in section 16 of the Local Government Act 2003 and the decision to borrow must be made by full council.

- 4.2. The Responsible Financial Officer may from time to time authorise the use of a temporary bank overdraft facility to facilitate cash flow throughout the financial year.
- 4.3. The Council's borrowing portfolio is shown in Appendix A. This shows that all the Council's current external borrowing was repaid in July 2011. The Council is not expected to enter into any further borrowing, either short term or long term, over the length of this strategy and aims to be a debt-free authority.
- 4.4. The Council is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required. The Council recognises that the borrowing of money purely to invest is ultra vires and the Council will not engage in this activity.
- 4.5. The Council's requirement to borrow will be reviewed annually as part of the Council's TMSS and assessed in conjunction with the Council's capital programme. Any potential future borrowing will be assessed so as to minimise the costs to revenue.

5. Annual Investment Strategy

- 5.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.
- 5.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.
- 5.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.
- 5.4 Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority

and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

5.5 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies*	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)*	✓	✗
Bonds issued by Multilateral Development Banks*	✓	✓
Local Authority Bills*	✓	✗
Commercial Paper*	✓	✗
Corporate Bonds*	✓	✓
AAA rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗

*Requires a safe custodian account

5.6 A number of changes have been implemented to the investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

5.7 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK

sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.

- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in *Appendix C*.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

- 5.8 **Authority's Banker** – The Authority banks with Lloyds TSB. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Authority's minimum criteria Lloyds TSB will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.
- 5.9 The Council has placed an upper limit for principal sums invested for over 12 months, by determining that a minimum of £1m should be held in short term investments. 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.

6. Investment Strategy

- 6.1 With short term interest rates low for even longer, 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.
- 6.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return.

Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

6.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

6.4 Collective Investment Schemes (Pooled Funds):

The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

6.5 Investments in pooled funds will be undertaken with advice from Arlingclose Ltd. The Authority's current investments in Pooled Funds are listed in *Appendix D*; their performance and continued suitability in meeting the Authority's investment objectives are regularly monitored.

7. The Use of Financial Instruments for the Management of Risks

7.1 Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

7.2 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

8. Balanced Budget Requirement

8.1 The Authority complies with the provisions of S50 of the Local Government Finance Act 1992 to set a balanced budget.

9. Monitoring and Reporting on the Treasury Outturn

9.1 The Responsible Finance Officer will report to the Council on its treasury management policies, practices and activities. Council will receive an annual strategy statement prior to the start of the financial year, a mid-year report and an annual report no later than 30th September after the financial year end. Any amendments made to the strategy within the financial year must be approved by full council.

9.2 The Finance and Performance Management Committee will be responsible for the scrutiny of treasury management activity and practices throughout the financial year, through the production of quarterly Treasury Reports.

10. Training

CIPFA's Code of Practice requires the Responsible Finance 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.

Reviewing and addressing training needs: Officers tasked with treasury management responsibilities are engaged in regular financial and treasury training through attendance at selective seminars/workshops and treasury courses.

11. Investment Consultants/Treasury Advisors

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The Council appointed Arlingclose as its Treasury Advisors in 2010 following an invitation to tender from various service providers. Among the various services provided is advice on capital financing, borrowing and investments appropriate to the Council's individual circumstances and objectives. The Council monitors the service through:

- The timeliness of advice
- The returns on investments
- The accuracy of technical advice
- Regular meetings
- Benchmarking
- The quality and content of training courses

The Council recognises that the responsibility for treasury management and investment decisions remain with the Council.

12. Publication of Strategies

The Council will make the Treasury Management Strategy Statement and Investment Strategy available on the Council's website. Copies of this document will be made available in large print upon request to admin@swanage.gov.uk.

Appendix A – Existing Investment & Debt Portfolio Position (Sections 2.2 & 4.3)

Borrowing Portfolio

	Balance on 01/04/2011 £s	Debt Maturing £s	Debt Repaid £s	New Borrowing £s	Balance on 30/09/2011 £s	Increase/ (Decrease) in Borrowing
TOTAL BORROWING	8,283	8,283	(8,283)	0	0	(8,283)

Investment Portfolio

	Balance on 01/04/2011 £s	Balance on 31/12/2011 £s	Increase/ (Decrease) in Investments
Short Term Investments	5,003,695	5,650,000	646,305
Long Term Investments	1,528	1,528	0
Pooled Funds	2,000,000	2,000,000	0
TOTAL INVESTMENTS	7,005,223	7,651,528	646,305

	31/12/2011 Actual Portfolio £000s
Total Gross External Debt	0
Investments:	
<i>Managed in-house</i>	
- Short-term monies (Deposits/ monies on call (MMFs))	5,650,000
- Long-term investments	1,528
<i>Managed externally</i>	
- Pooled Funds - LAMIT	2,000,000
Total Investments	7,651,528
Net Investment Position	7,651,528

Appendix B – Economic & Interest Rate Forecast (Section 3.1)

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.25	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.20	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.25	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.
- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of

action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.

- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

Appendix C – Recommended Sovereign and Counterparty List (Section 5.7)

- **Group Limits** - For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	40%
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	40%
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	60%
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	40%
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	40%
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	40%
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	40%
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	40%
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	40%
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	40%

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.*

Appendix D –Collective Investment Scheme Investments (Section 6.5)

Pooled Funds and Collective Investment Schemes used by the Authority

- The Local Authorities Mutual Investment Trust – Property Fund

Glossary of Terms

Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the "repo rate".
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as "Pooled Funds"). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Investing predominantly in bonds issued by companies and supranational organisations.

CPI	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting.
Gilt	A fixed rate security issued as debt and repaid at a future date.
IFRS	International Financial Reporting Standards
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Pooled funds	See Collective Investment Schemes (above)
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's

	function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
SI (Statutory Instrument)	The principal form in which delegated or secondary legislation is made in Great Britain.
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Supported Capital Expenditure	The financing element of Capital expenditure that is grant funded by Central Government
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return
Unsupported Capital Expenditure	The financing of Capital expenditure is financed internally through the revenue budget