DERBY CITY COUNCIL

AUDIT & ACCOUNTS COMMITTEE
29 September 2011

ITEM 8

Report of the Strategic Director - Resources

Treasury Management – Annual Report 2010/11

SUMMARY

1.1 This report covers the Council's treasury management borrowing and investment activity for 2010/11 and it details the outturn prudential indicators, which are set out in Appendix 2. It also proposes an amendment to the Council's investment strategy in 2011/12.

1.2 2010/11 was marked by a further decline in the Council's investment returns, due to three factors:

- general conditions in the financial markets
- the Council's continued tightening of its investment criteria because of financial market instability
- a further planned reduction in the Council's cash balances due to very low rates of return on investments and better value for money being achieved through using cash balances to repay outstanding loans.

As a result, investment income fell by 51% from £1.7m in 2009/10 to £0.85m in 2010/11.

1.3 During the year, the Council's cash balances were used to redeem a net £13.08m of external debt. This resulted in a saving that partly offset the loss of investment income. Interest payable on debt fell by 6% from £12.7m in 2009/10 to £11.9m in 2010/11, although £0.4m of this £0.8m saving was required to be passed to the Housing Revenue Account - HRA.

1.4 In net terms the Council's treasury management costs fell by 2% from £14.7m in 2009/10 to £14.3m in 2010/11, and delivered an under-spend of £2.4m compared to the £16.7m budget. This is further explained in paragraph 5.4 below.

1.5 Investment losses are a key risk to be avoided, and the possibility of increased borrowing rates in future also remains a key risk to be minimised in the ongoing management of the Council's treasury function. As part of this risk management a further review of the financial markets has been undertaken, with additional criteria for money market fund investments included in the Treasury Management Strategy.

1.6 The contract for the Council's Treasury Management consultants expired on the 31 March 2011 and, after a competitive tendering process, Arlingclose were appointed as our new Treasury Management advisors until 31 March 2014. The previous contract was awarded to Butlers, who were taken over by Sector in October 2010.

RECOMMENDATIONS

2.1 To note the prudential indicators in respect of the 2010/11 outturn as outlined in the supporting information and summarised in Appendix 2.

2.2 To note this Annual Report in respect of Treasury Management activity for 2010/11.

2.3 To note and if necessary comment on the updated forecast prudential indicators for 2011/12, 2012/13 and 2013/14 as listed in Appendix 2.

2.4 To note and if necessary comment on the revised investment criteria as outlined in section 11, bringing the Council's investment limits into alignment with the advice of its new Treasury Management advisors, Arlingclose.

SUPPORTING INFORMATION

3 The Prudential Code

3.1 This report sets out the outturn position for the prudential indicators and reports on treasury management activity during 2010/11, consistent with the Council's duties and responsibilities under CIPFA's Prudential Code for Capital Finance in Local Authorities, which was revised in 2009.

3.2 The Prudential Code requires that the Council adopts a set of annual prudential indicators relating to capital expenditure and treasury management, and approves annually a Treasury Management Strategy, incorporating an Annual Investment Strategy.

3.3 The prudential indicators adopted by the Council relate to:

- affordability, specifically with reference to the impact of the capital programme on council tax
- prudence, comparing actual Council borrowing with its need to borrow
- Capital Expenditure, highlighting the planned expenditure of the Council and its impact on the need to borrow
- External Debt, specifying the limit determined by Council above which further borrowing is not permitted
- Treasury management, outlining the limits relating to interest rate exposure and principal exposure on both investments and borrowing.

3.4 This report sets out the approved prudential indicators, together with the 2010/11 outturn position for each. Appendix 2 to the report provides a summary of all the prudential indicators.

3.5 The prudential indicators for 2011/12, 2012/13 and 2013/14 have also been updated insofar as they reflect consequential changes from the outturn position for 2010/11, and also to reflect any approved changes to the capital programme since the report in February 2011.

3.6 It is also a requirement of the Revised Prudential Code for the Council to have adopted the CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The Council in effect adopted this Code of Practice in March 2010 when it approved a revision to its Financial Procedure Rules. The Code of Practice requires that a report on the whole of the financial year's activities of the treasury operation be presented to members with a responsibility for Treasury Management and sections 10 and 11 below cover this.

4 The financial markets during 2010/11

4.1 At the time of determining the strategy for 2010/11, interest rates were expected to remain low in response to the fragile state of the UK economy. Spending cuts and tax increases seemed inevitable after the General Election if the government had a clear majority. The markets had, at the time, viewed a hung Parliament as potentially disruptive particularly if combined with a failure to articulate a credible plan to bring down government borrowing. The outlook for growth was uncertain due to consumers and corporates trimming their spending and financial institutions exercising restraint in new lending.

4.2 The economy's two headline indicators moved in opposite directions – growth was lacklustre whilst inflation spiked sharply higher. The economy grew by just 1.3% in calendar year 2010; the forecast for 2011 was revised down to 1.7% by the Office of Budget Responsibility in March. Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%. The Bank Rate was held at 0.5% as the economy grappled with uneven growth and the austerity measures set out in the coalition government's Comprehensive Spending Review. Significant cuts were made to public expenditure, in particular local government funding.

4.3 The US Federal Reserve kept rates on hold at 0.25% following a slowdown in American growth. The European Central Bank maintained rates at 1%, with the markets expecting a rate rise in early spring.

4.4 The credit crisis migrated from banks to European sovereigns. The ratings of Ireland and Portugal were downgraded to the 'triple-B' category whilst the rating of Greece was downgraded to sub-investment (or 'junk') grade. The sovereign rating of Spain was also downgraded but remained in the 'double-A' category. The results from the EU Bank Stress Tests, co-ordinated by the Committee of European Banking Supervisors, highlighted that only 7 out of the 91 institutions failed the 'adverse scenario' tests. The tests were a helpful step forward, but there were doubts about whether they were far-reaching or demanding enough.

4.5 Gilts benefitted from the decisive Comprehensive Spending Review (CSR) plans as well as from their relative ‘safe haven’ status in the face of European sovereign weakness. 5-year and 10-year gilt yields fell to lows of 1.44% and 2.83% respectively. However, yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.

4.6 During the year money market rates increased marginally at the shorter end (overnight to 3 months). 6 - 12 month rates increased between 0.25% to 0.30% over the 12 month period, reflecting the expectation that the Bank Rate would be raised later in 2011.

4.7 Following the CSR on 20 October 2010, on instruction from HM Treasury, the PWLB increased the margin for new borrowing to average 1% above the yield on the corresponding UK Government Gilt. New fixed rate borrowing increased by approximately 0.87% across all maturities and new variable rate borrowing by 0.90%. Premature repayment rates did not benefit from the increase in the margin which potentially makes future rescheduling of PWLB loans even more challenging.

4.8 The Council funded £20m of its capital expenditure in 2010/11 through new borrowing. This borrowing was in the form of two £10m market loans from RBS, although the PWLB remains the Council’s preferred source of borrowing given the transparency and control that its facilities continue to provide. However the decision to borrow from the market was taken as a means of developing a mixed portfolio, and hedging against possible future changes in PWLB policy.

5 Affordability

5.1 Almost all capital spending decisions impact on revenue expenditure and on the council tax set by the Council. It is not only the schemes financed from prudential borrowing or direct from revenue, but also schemes financed from non-ringfenced grant and from capital receipts that affect the bottom line. The ‘affordability’ indicators within the Prudential Code aim to capture the revenue impact of the Council’s decisions.

5.2 The Prudential Code requires that a ratio of net financing costs to the net revenue stream be produced to measure the relative cost of maintaining debt year-on-year. This is a key affordability indicator and shows the long-term trend of financing costs – basically, the cost of maintaining debt less any investment income from cash balances – as a proportion of the Council’s ongoing funding, namely Formula Grant, Council Tax and charges. The importance of this indicator is reflected in its being reported monthly to the Council’s Chief Officers Group.

5.3 Based on the capital outturn position for 2010/11, the indicators for Derby’s General Fund and Housing Revenue Account (with the previous year’s figures shown for information) are as follows:

	GF	**HRA**
Actual 2010/11	6.76%	17.99%
Actual 2009/10	7.45%	16.99%

5.4 As highlighted in paragraph 1.4 above, the Council's treasury management costs actually decreased during 2010/11. This was due mainly to the work of the Council's Technical Finance Team in discovering that additional external debt (specifically, a portion of that relating to the transfer of services from the County Council in 1997) could be recharged to the HRA and recovered through additional HRA subsidy, putting no additional pressure on local rent-payers. This saving more than offset the increasing borrowing costs and the decreasing investment income, both of which are placing upward pressure on the treasury management budget.

5.5 As a result of this reduction the ratio of net financing costs to the net revenue stream, as applying to the General Fund, decreased from 7.45% in 2009/10 to 6.76% in 2010/11. The HRA ratio suffered a corresponding increase.

5.6 In the longer-term the ratio of financing costs to the net revenue stream is driven less by market fluctuations in interest rates and more by the Council's capital programme. The capital programme relies heavily on borrowing, and each tranche of borrowing commits the Council to interest and Minimum Revenue Provision repayments for several years (over the life of the asset to be financed). Costs therefore mount up if further borrowing is undertaken before already-acquired assets have been fully financed, and, of course, such costs cannot be avoided in times of reduced funding.

5.7 The Prudential Code does not recommend that any upper limit be placed on this ratio (such as the operational boundary and authorised limit placed on external borrowing). However, it does state that the objective of the indicator is to ensure that "the total capital investment of the authority remains within sustainable limits".

6 Prudence

6.1 The Capital Financing Requirement - CFR - is the key indicator against which the Council's external borrowing is measured. The actual CFR is calculated for the current year by adding together figures extracted from the Council's Balance Sheet for the following items:

- Fixed and Intangible Assets
- Mortgages
- Capital Adjustment Account
- Revaluation Reserve
- Government Grants Deferred
- Deferred Capital Receipts

6.2 The sum of these balances represents the value of the Council's long-term assets that have yet to be financed from revenue and, as such, is the maximum amount that the Council might expect to have borrowed to finance all capital investments to date. Future year's CFRs are derived by adding planned increases in borrowing to the latest actual CFR, and deducting any monies set aside for the repayment of principle.

6.3 The Prudential Code requires a comparison between total net external borrowing and the Council's CFR. This is to ensure that overall external borrowing exposure is not excessive. The requirement of the code is that external borrowing, net of any investments, should not exceed the CFR at the end of the final year of a three year programme.

6.4 Until November 2008 the Council tended to borrow up to the CFR at points in time when interest rates for borrowing looked low enough to represent good value. However, since then the risks associated with holding on to high cash balances have increased as has the differential between investment and borrowing interest rates. It has therefore been deemed sensible by treasury management officers to use a large proportion of the Council's cash balances to temporarily offset the need to take on external debt, reducing risk and at the same time making short-term revenue savings.

6.5 The Council's treasury management budget policy continues to be based on the assumption that the Council will on a rolling basis borrow £50m less than required by the capital programme – the assumption being that the Council's cash balances will provide temporary funding of £50m until the borrowing is actually undertaken at a later date. For information, actual 'under-borrowing' as at 31 March 2011 was £97.3m. This has all been provided by cash from other sources and will, of course, need to be replaced by additional borrowing in 2011/12 or beyond.

6.6 The actual CFRs for 2009/10 and 2010/11 are as follows:

CFR	**General Fund**	**HRA**	**Total**
	£m	£m	£m
2009/10 Actual	251.6	188.7	440.3
2010/11 Actual	252.1	188.7	440.8
Increase	0.5	0.0	0.5

Generally, an increase in the General Fund CFR shows the extent to which borrowing to finance new capital expenditure has exceeded the amount required to be set aside for the future repayment of debt.

6.7 The following sets out the prudential indicator which compares the Council's overall debt with its Capital Financing Requirement. However, the local indicator alongside it is the more prudent as it (a) includes debt that was transferred to the Council from Derbyshire County Council on local government reorganisation in 1997, and (b) excludes the netting-off effect of the Council's investment balances:

	Actual	**Estimated**	**Estimated**	**Estimated**
	2010/11	**2011/12**	**2012/13**	**2013/14**
	£m	**£m**	**£m**	**£m**
Prudential Indicator				
- Gross External Debt	311.5	405.4	425.9	468.6
- Investment Balances	-67.5	-40.0	-40.0	-40.0
- CFR	440.8	482.0	503.5	546.5
- Variance	-196.8	-117.5	-117.5	-117.9
Local Indicator				
- Gross External Debt	311.5	405.4	425.9	468.6
- Transferred Debt	38.0	36.5	35.0	33.7
- Investment Balances	-67.5	-40.0	-40.0	-40.0
- CFR	440.8	482.9	503.5	546.5
- Variance	-158.8	-81.0	-82.6	-84.3

6.8 The prudential indicator at 31 March 2011 showed net external debt as £196.8m well below the current CFR. The more prudent local indicator shows the gap to be £158.8m. This illustrates the extent of the Council's under-borrowing, once investment balances and PFI liabilities are accounted for.

7 Plans for Capital Expenditure

7.1 The actual capital expenditure outturn for 2010/11 was reported to Cabinet in the 2010/11 Capital Outturn Report. The actual indicators, consistent with this outturn are as follows, split between General Fund, GF, including unsupported borrowing, and Housing Revenue Account, HRA:

	GF	HRA	Total
	£m	£m	£m
Actual 09/10	56.2	12.1	68.3
Latest approval 10/11	58.5	20.0	78.5
Actual 10/11	58.3	14.9	73.2
Variance 10/11	-0.2	5.1	4.9

7.2 The variance in capital expenditure for 2010/11 mainly relates to slippage. Slippage actually has a beneficial effect on the treasury management budget as it postpones the amount of 'minimum revenue provision' - MRP - that is charged to revenue. This benefit will be felt in 2011/12.

7.3 On the other hand, slippage does represent the extent to which the Council has not delivered its plans. It could also result in the Council borrowing the funds to deliver its capital programme but then not being able to dispose of those funds efficiently. This means that the Council incurs borrowing costs earlier than necessary and must also manage the increased risk relating to higher cash balances. It is partly for this reason that the Council now routinely plans to borrow £50m less than the amount required by the capital programme (see paragraph 6.5).

8 External Debt and Borrowing Limits

8.1 Section 3 of the 2003 Local Government Act imposes a duty on the Council to set a limit on how much money it can afford to borrow and to keep this under review. The 'authorised limit' is an absolute limit on borrowing, and may not be exceeded. Additionally, the Council must set an 'operational boundary' for borrowing. This is a level of borrowing that, if exceeded frequently, indicates a potential problem with the borrowing strategy. These targets are required to be set on a 'rolling' three-year basis.

8.2 For 2010/11 the operational boundary was set at £50m less than the forecast Capital Financing Requirement and the authorised limit as £70m above this (to allow for times when the Council reschedules debt and needs to borrow prior to repaying).

8.3 In line with this, in February 2010 the Council's operational boundary and authorised limit for 2010/11 were set at £472m and £542m respectively. The Council's gross external borrowing plus transferred debt at the end of the year was £270m. This is within the operational boundary and well within the authorised limit.

8.4 The Council also sets corresponding limits for debt in the form of long-term liabilities. Specifically this relates to the liabilities associated with the schools and street-lighting PFI contracts that the Council has entered into. These were both set at £100m for 2010/11, and were adhered to throughout the year.

8.5 The limits were set comfortably high, because at the time – before the introduction of International Financial Reporting Standards - the true extent of the Council's finance leases was not known. However, it now appears that the Council has no finance leases other than those embedded within the PFI contracts, and so in 2011/12 both the operational boundary and the authorized limit for other long-term liabilities has been set to match the actual liability.

9 Interest Rate Exposure

9.1 The other locally-set prudential indicators required for Treasury Management relate to the split of borrowing and investments between fixed and variable rates, and the maturity profile of long term loans and long-term investments. The split in respect of net borrowing (borrowing less investments) as at 31 March 2011, and the comparative figures for the previous year, are as follows:

2010/11	**Upper Limit**	**Lower Limit**	**Actual 31/03/11**
	%	%	%
Interest Rate Exposure – Fixed	120	80	123.04
Interest Rate Exposure – Variable	20	-20	-23.04

2009/10	**Upper Limit**	**Lower Limit**	**Actual 31/03/10**
	%	%	%
Interest Rate Exposure – Fixed	120	80	108.40
Interest Rate Exposure – Variable	20	-20	-8.4

9.2 This indicator combines both investments and borrowing into one net figure, the limits for fixed rate and variable rate exposure need to be set at seemingly odd numbers. For instance, the lower limit on variable interest rate exposure is negative. This is because the calculation deducts variable-rate investments from variable-rate debt and compares this to the Council's overall net indebtedness. As the Council has no variable rate debt, this indicator is negative.

9.3 The actual figures above show that the Council was exposed to more fixed term net debt (and less variable net debt) than was intended. This stems directly from the current treasury management policy of keeping cash liquid (ie. invested in instant access accounts and money market funds, both of which have variable interest rates) with a view to using it to fund the capital programme, thereby temporarily postponing the Council's need for long-term borrowing.

9.4 The risk of holding too much fixed interest rate debt is greater when economic conditions suggest that rates are set to decrease. However, all indicators suggest that interest rates are likely to increase, especially as the Bank Rate is currently set at the lowest possible limit of 0.5%. This suggests that the limits as set by Council should be reviewed, and recommendations on this will be made in the Treasury Management Progress Report, which will be taken to Cabinet in November, and to the Audit & Accounts Committee as soon as possible thereafter.

9.5 The Council has also set its own indicators in respect of long-term borrowing and investments. The split as at 31 March 2011 and comparable figures for the previous year are as follows:

2010/11	**Upper Limit**	**Lower Limit**	**Actual 31/03/11**
	%	%	%
Fixed Rates – Debt	100	80	100.00
Variable Rates – Debt	20	0	0.00
Fixed Rates – Investments	100	30	19.26
Variable Rates – Investments	70	0	80.74

2009/10	**Upper Limit**	**Lower Limit**	**Actual 31/03/10**
	%	%	%
Fixed Rates – Debt	100	80	100.00
Variable Rates – Debt	20	0	0.00
Fixed Rates – Investments	100	30	61.75
Variable Rates – Investments	70	0	38.25

Again this shows that the limits set for variable and fixed interest rate exposures need examining in light of de factor treasury management policy, which is itself dictated to a certain extent by external market conditions.

9.6 The current loan maturity limit profile, approved by Cabinet in February 2011, along with the actual structure as at 31 March 2011, is as follows:

	Limit	Actual
Up to 1 year	5%	0.00%
Up to 2 years	10%	0.00%
Up to 5 years	20%	7.54%
Up to 10 years	50%	11.31%
Up to 20 years	70%	19.52%
Up to 30 years	80%	33.66%
Up to 40 years	90%	52.88%
Up to 50 years	100%	100.00%

All actual profiles during the course of the year were comfortably within the boundaries set.

9.7 The final treasury management indicator required is the limit at any one time on investments with a period to maturity of greater than 365 days. The limit, as agreed at Cabinet in February 2011, is £10m. The actual balance at the end of the financial year was £0m, and was below £10m throughout the year. In practice, current investments are made in agreement with the criteria outlined in paragraph 11.3 below.

10 Borrowing 2010/11

10.1 The borrowing strategy for 2010/11 was approved in February 2010. It identified a borrowing requirement of £89.8m, consisting mainly of £15.7m of new capital expenditure, £74.9m carried forward from the previous year, and replacement debt (net of MRP) of -£0.5m. This is shown in the table below together with the final outturn position:

	Plan £m	**Actual** £m
Borrowing requirement c/f	74.9	91.7
New supported borrowing SCE(R) 2010/11	3.5	3.5
Unsupported Borrowing	12.2	8.4
PFI assets recognised (IFRS requirement)		48.5
Total capital financed by borrowing	**90.6**	**152.1**
Long-term loan repayments 2010/11 (inc. transferred debt)	7.1	21.7
Potential borrowing requirement 2010/11	**97.7**	**173.8**
less: earmarked for repayment of debt	-7.6	-8.1
less: PFI assets financed	-0.3	-2.4
add: other financing adjustments		0.2
Net increase in expected debt	**89.8**	**163.5**
New loans taken out		-20.0
Outstanding liabilities with PFI contractors		-46.2
Amount under-borrowed 2010/11		**97.3**

Columns may not sum due to rounding

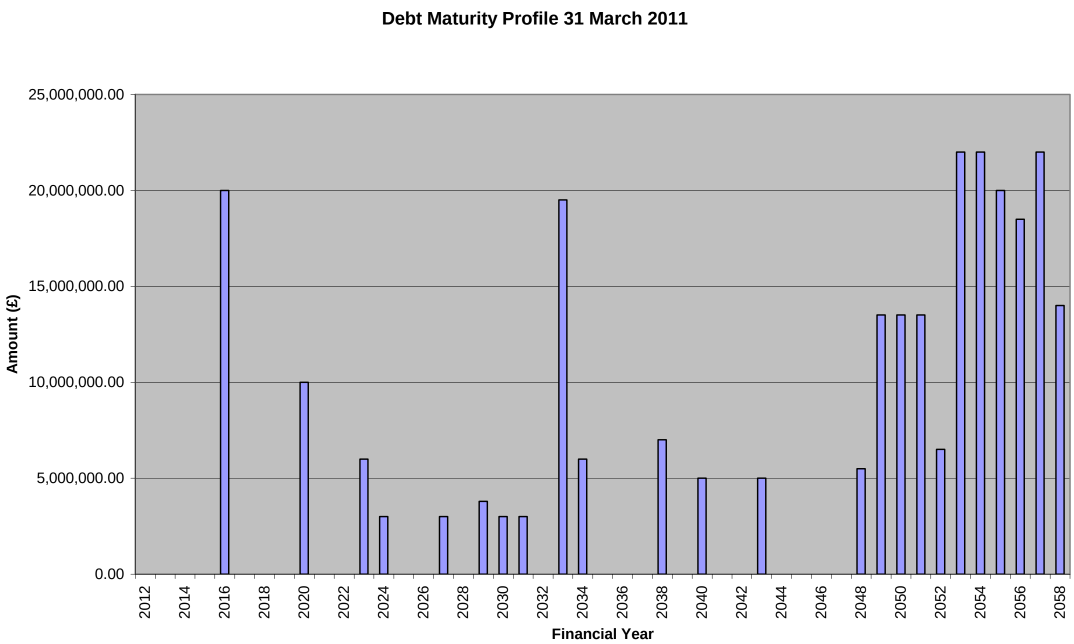
10.2 As can be seen, the Council planned to repay £7.1m of debt during 2010/11 but actually redeemed a further £14.6m. This was in essence replaced by the £20m of market loans from the Royal Bank of Scotland (as mentioned in paragraph 4.8), the remainder of the £20m being used to partly fund the Council's capital programme. Notwithstanding this, there remained a balance of £97.3m still to be borrowed by the year-end. This borrowing need will be carried forward into 2011/12.

10.3 It should be noted that the figure of £46.2m representing "outstanding liabilities with PFI contractors" in paragraph 10.1 above is the value of the Council's PFI assets which are still to be financed. We are required to show this as part of newly introduced International Financial Reporting Standards. The funding to pay for this outstanding liability comes from central Government in the form of an annual PFI grant and so there is no impact on the council tax payer.

10.4 The following table provides a snapshot of month-end interest rates available on long-term borrowing from the Public Works Loan Board for 2010/11 and part of 2011/12:

Length of loan	April 10 %	June 10 %	Nov 10 %	Jan 11 %	March 11 %	May 11 %	Jun 11 %
5 years	3.05	2.45	3.22	3.75	3.74	3.38	3.22
10 years	4.20	3.62	4.49	4.87	4.78	4.50	4.43
20 years	4.61	4.23	5.19	5.40	5.28	5.09	5.13
30 years	4.62	4.29	5.27	5.47	5.31	5.13	5.19
40 years	4.60	4.27	5.25	5.44	5.27	5.09	5.16
50 years	4.59	4.26	5.23	5.40	5.24	5.07	5.15

10.5 As a result of this activity, total external debt outstanding at 1 April 2011 was £265.3m. This was made up of PWLB loans and transferred debt at an average interest rate of 4.62% (the previous year's PWLB average rate was 4.55%), with the following maturity profile:



10.6 It is planned to take future loans at the shorter end (between 5 and 10 years) in order to obtain a flatter maturity profile, especially as longer-term loans are more expensive (as shown in the table above). This obviously creates a risk that interest rates will be even higher when these relatively short-dated loans need replacing. However, it is hoped that by then the financial climate in which local government operates will be less austere.

11 Investments 2010/11

11.1 The following investment activity took place during 2010/11:

Number of fixed-term deposits made:	140
Number of instant access accounts used:	10
Deposits/withdrawals from instant access accounts:	215

Value of investments held at:	
1 April 2010	£55.065m
31 March 2011	£67.510m
Average size of portfolio 2010/11	£86.653m
Average size of portfolio 2009/10	£100.109m
Total interest earned on investments 2010/11	£0.851m
Total interest earned on investments 2009/10	£1.743m
Average return on portfolio 2010/11	0.982%
Average return on portfolio 2009/10	1.741%

11.2 In accordance with the Revised CIPFA Code of Practice the primary objective of the Council's investment strategy remains that of obtaining the best rate of return whilst maintaining effective control of associated risks. However, in the light of the various financial crises, the regard which the Council pays to the active control of all security and liquidity risks has increased significantly over the course of 2010/11, such that only the most secure and most liquid investments are considered. This has resulted in a severe narrowing of investment opportunities and a reduction in the Council's average rate of return.

11.3 In April 2011 the Council appointed Arlingclose as its treasury management advisors. Prior to then the Council's advisors were Sector who had taken over the previously appointed firm Butlers in October 2010. After being appointed Arlingclose conducted a review of the Council's counterparty investment limits and advised that security and liquidity could be maintained within a slight relaxation of the limits.

11.4 Previously the Council-approved investment limits were as follows:

Short term rating	Long term rating	Individual rating	Support rating	Maximum period	Limit
F1	AA	C	3	1 year	£12m
F1	A	C	3	3 months	£8m
F1	A	"Eligible"	3	3 months	£5m
• Co-operative Bank (Council's current bank)				Overnight	£5m
• Debt Management Office				6 months	n/a
• AAA rated Money Market Funds (>£20bn)				n/a	£20m
• AAA rated Money Market Funds (>£10bn)				n/a	£15m
• AAA rated Money Market Funds (>£5bn)				n/a	£10m
• AAA rated Money Market Funds (>£1bn)				n/a	£5m
• Other local authorities				n/a	£15m
• UK Government guaranteed institutions				Period of guarantee	£12m

11.5 The table below shows the proposed criteria for investments up to one year, based on Arlingclose's recommendations. The short and long term ratings shown relate to the credit rating agencies Fitch, Moody's and Standards & Poor respectively.

Counterparty		**Max period**	**Limit**
• Short term: F1/P-1/A-1	Long term: A+/A1/A+	1 year	£15m
• Bank of England Debt Management Office		6 months	n/a
• AAA rated Money Market Funds		n/a	0.50% of fund size to a max of £15m
• Other Local Authorities		1 year	£15m
• UK Government guaranteed institutions		Period of guarantee	£15m
• Co-operative Bank (see paragraph 11.4)		Overnight	£15m

11.6 The limit for the Co-operative Bank of £15m is recommended by Arlingclose, despite the bank not meeting the general counterparty limits. Its position as the Council's current bank means that there could be a balance of up to £15m during the course of a business day, particularly prior to a monthly payroll run. It would therefore be inconsistent to set a lower limit than this to apply to overnight/weekend balances. However, longer-term investments with the Co-op Bank are still not permitted by these limits.

11.7 The Council's list of approved Money Market Funds currently includes the following:

- Black Rock (previously known as Barclays Global Investors)
- Standard Life
- Invesco AIM
- Prime Rate
- Scottish Widows Investment Partnership
- Ignis

The Council's investment limit with each of these funds is dependent on the fund size.

11.8 Any Money Market Fund in which the Council invests must also be rated 'AAA' by at least two credit rating agencies.

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Background papers:

- Council Cabinet report 16 February 2010 'Treasury Management Strategy and Prudential Code Indicators 2010/11'
- Council Cabinet report 27 July 2010 'Treasury Management – Annual Report 2009/10'
- Council Cabinet report 23 November 2010 'Treasury Management Progress Report 2010/11'

List of appendices:

Appendix 1 - Implications
Appendix 2 – Prudential Indicators 2010/11

Appendix 1

IMPLICATIONS

Financial

1.1 As detailed in the report.

Legal

2.1 The Council is obliged to set and review prudential indicators in order to comply with the Local Government Act 2003. The Local Government Act 2003 states that the Council must adopt the Prudential Code, which, in turn, requires local authorities to adopt the CIPFA Treasury Management Code of Practice. Unless the government uses its powers under section 4 of that Act, the Council is free to set any reasonable indicators consistent with its other policies.

2.2 The Prudential Code states that the Prudential indicators for treasury management should be considered together with the local authority's treasury management strategy and the annual report on treasury management activities.

Personnel

3.1 None.

Equalities Impact

4.1 None.

Health and Safety

5.1 None.

Carbon commitment

6.1 None.

Value for money

7.1 The objective of the Council's Treasury Management Strategy is both to highlight and reduce the ongoing revenue costs of the Council's capital programme and thereby contribute to providing value-for-money services to the citizens of Derby. Day-to-day treasury management activity undertaken by Council officers - overseeing both borrowing to finance the capital programme and investing any cash balances - is conducted within a framework designed to reduce the overall revenue cost of the capital programme while at the same time ensuring that security and liquidity guidelines are adhered to.

Corporate objectives and priorities for change

8.1 The priorities of the Council's Treasury Management Strategy contribute to minimizing Council Tax and providing value for money.