8. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2012/13

REPORT OF: Peter Stuart, Head of Finance

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Wards Affected: All

Key Decision No

Purpose of Report

1. The report sets out the Council's treasury management activity for the year ended 31 March 2013.

Summary

2. All transactions are in order and the performance of the service has been excellent.

Recommendation

3. The Committee is requested to note the report.

Background

4. The Treasury Management function of this Council has been delivered by Adur-Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority.

5. The 2012-13 Treasury Management Annual Report produced by the Group Accountant Strategic Finance is attached at Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

6. For those Members seeking a summary, paragraph 12.2 sets out the report in one sentence:

   The Council's performance during the year exceeded the budgeted returns for investment income, and was within the counterparty lending limits and Prudential Limits approved at the start of the year.

7. The Group Accountant would welcome questions and queries from Members using the contact details above.

Policy Context

9. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce an annual report by 30 September after the year end.

Other Options Considered

10. None.

Financial Implications

11. None.

Other Material Implications

12. None.

Background Papers

None.

1. SUMMARY

1.1 This report summarises the treasury management transactions for the financial year 2012/2013. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. INTRODUCTION AND BACKGROUND

2.1 Treasury management is defined as:

"The management of the local authority's cash flows and investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

2.2 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2012/13. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.3 For 2012/13 the Council's Treasury Management strategy and practices required that a minimum of three main reports be prepared , which incorporate a variety of polices, estimates and actuals. The CIPFA Code of Practice recommends the reports be scrutinised by the relevant committee before being recommended to the Council. Discretion to do this is excercised by the Head of Finance, and where so the scrutiny role is undertaken by the Audit Committee. The reports so prepared were:

- The Annual Treasury Management and Annual Investment Strategy to be approved by full Council in advance of the year – this was submitted in April 2012.

- The mid-year treasury management operations update report – this was submitted in November 2012 to the Audit Committee.

- An annual review (this report) to be presented to the Audit Committee following the end of the year describing the activity compared to the strategy.

2.4 Accordingly, this report covers:

- ♦ treasury portfolio position at the start and end of 2012/13
- ♦ borrowing strategy and outturn for 2012/13
- ♦ interest rate movements for 2012/13
- ♦ investment strategy and outturn for 2012/13
- ♦ compliance with treasury limits and Prudential Indicators
- ♦ performance measures
- ♦ minimum revenue provisions (MRP) for repayment of debt
- ♦ incidence of other issues & matters

2.5 The regulatory environment places importance on Members for the review and scrutiny of treasury management policy and activities. This report supports such a review, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3. PORTFOLIO POSITION AT 31ST MARCH, 2013

3.1 The Council's position at the beginning and end of year was as follows:-

	Balance at 01.04.12 £m	Raised in Year £m	Repaid in Year £m	Balance at 31.03.13 £m
Borrowing				
PWLB	(1.458)	-	0.139	(1.319)
Temporary Borrowing	-	-	-	-
TOTAL BORROWING	**(1.458)**	**-**	**0.139**	(1.319)
Investments:				
In-house:				
Short Term	11.750	123.575	(113.825)	21.500
Long Term	9.000	1.000	(8.000)	2.000
With Fund Managers	-	-	-	-
TOTAL INVESTMENTS	**20.750**	**124.575**	**(121.825)**	**23.500**
NET INVESTMENTS	**19.292**	**124.575**	**(121.686)**	**22.181**

4. BORROWING STRATEGY AND OUTTURN FOR 2012/2013

4.1 The Council's treasury portfolio position at 31 March 2013, including finance lease liabilities is summarised below.

Comparison of Net Debt to Capital Financing Requirement (CFR)	2012 Actual £m	2013 Actual £m
Long Term Borrowing	1.458	1.319
Finance Leases	0.739	0.601
Total Debt at 31 March	**2.197**	**1.920**
Less Capital Financing Requirement (CFR)	(2.263)	(2.032)
(Under)/ Over Borrowing	**(0.066)**	**(0.112)**
Total Investments at 31 March	(20.750)	(23.500)
Net (Investments)/Debt	**(18.553)**	**(21.580)**

4. BORROWING STRATEGY AND OUTTURN FOR 2012/2013 (Continued)

4.2 This Table compares the Net Debt (i.e. Total Debt less Total Investments) against the underlying need to borrow (the Capital Financing Requirement, CFR) thereby highlighting any over or under borrowing.

4.3 This comparison is performed as the Prudential Code requires that borrowing levels are prudent over the medium term, and the Council's external borrowing (net of investments) is only for capital investment purposes. This essentially means that the Council is not borrowing to support revenue expenditure. Therefore, net borrowing should not be more than the CFR for 2012/13 (plus the expected changes to the CFR over 2013/14 and 2014/15) except in the short term. This requirement has been fully met in 2012/13 as the Council is a net investor.

4.4 With effect from 2013/14 this indicator is changing so that the comparison is between gross (not net) borrowing and the CFR as this is expected to provide a more appropriate indicator. The Council's Prudential Indicators for 2013/14 presented to Council in March 2013 as part of the Treasury Management Strategy Report incorporate this change, and will feature in the 2013/14 Half Year and Annual Reports.

4.5 The debt movement in borrowing for 2012/13 from treasury management operations is summarised below:

	Average Interest Rate	**Balance at 01.04.12 £m**	**Raised in Year £m**	**Repaid in Year £m**	**Balance at 31.03.13 £m**
<u>Long Term Borrowing</u> PWLB - Fixed rate	4.41%	(1.458)	-	0.139	(1.319)
<u>Short Term</u> Temporary Borrowing	-	-	-	-	-
TOTAL BORROWING	**4.41%**	**(1.458)**	**-**	**0.139**	**(1.319)**

4.6 No Temporary borrowing for operational cash flow purposes was conducted in 2012-13.

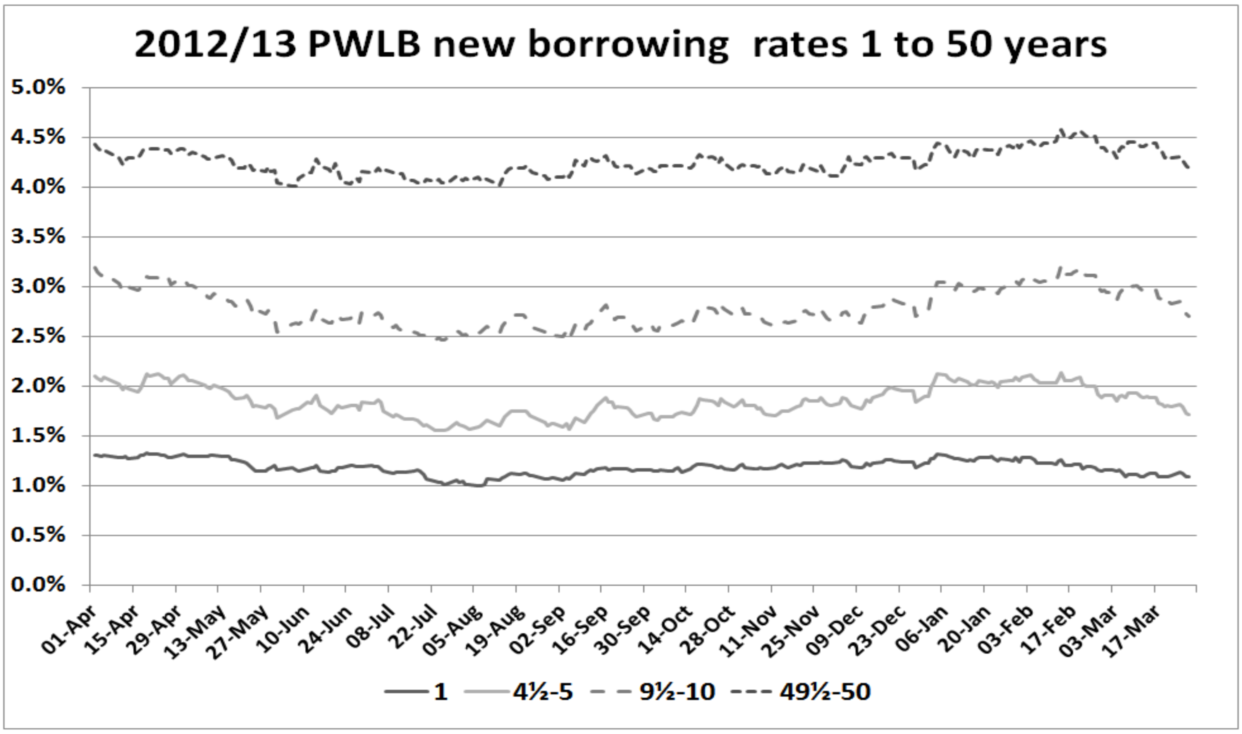
4.7 The Council's long term debt comprises two loans from the Public Works Loans Board (PWLB), being:

Loan Number	**Start Date**	**End Date**	**Original Loan Amount £**	**Interest Rate**	**Balance at 31. 03. 2013***
494369 495726	06/03/2008 27/07/2009	01/03/2023 30/06/2014	1,700,000 205,000	4.55% 2.23%	1,259,872.52 64,259.15
TOTAL LOANS			1,905,000		1,324,131.67
(* includes accrued interest)					

4. **BORROWING STRATEGY AND OUTTURN FOR 2012/2013**

4.8 The total cost of interest on long term borrowing for 2012/13 was £61,952.71(£82,495 for 2011/12) and is within the budgetary estimates provided for at the start of the year.

4.9 Although no new borrowing was incurred in 2012/13, the graph below shows how PWLB borrowing rates remained close to the historically very low levels during the year.



5. **THE ECONOMY AND INTEREST RATES 2012/13**

The following commentary has been supplied by Sector Treasury Services Ltd, the professional consultants for the Council's shared treasury management services provider.

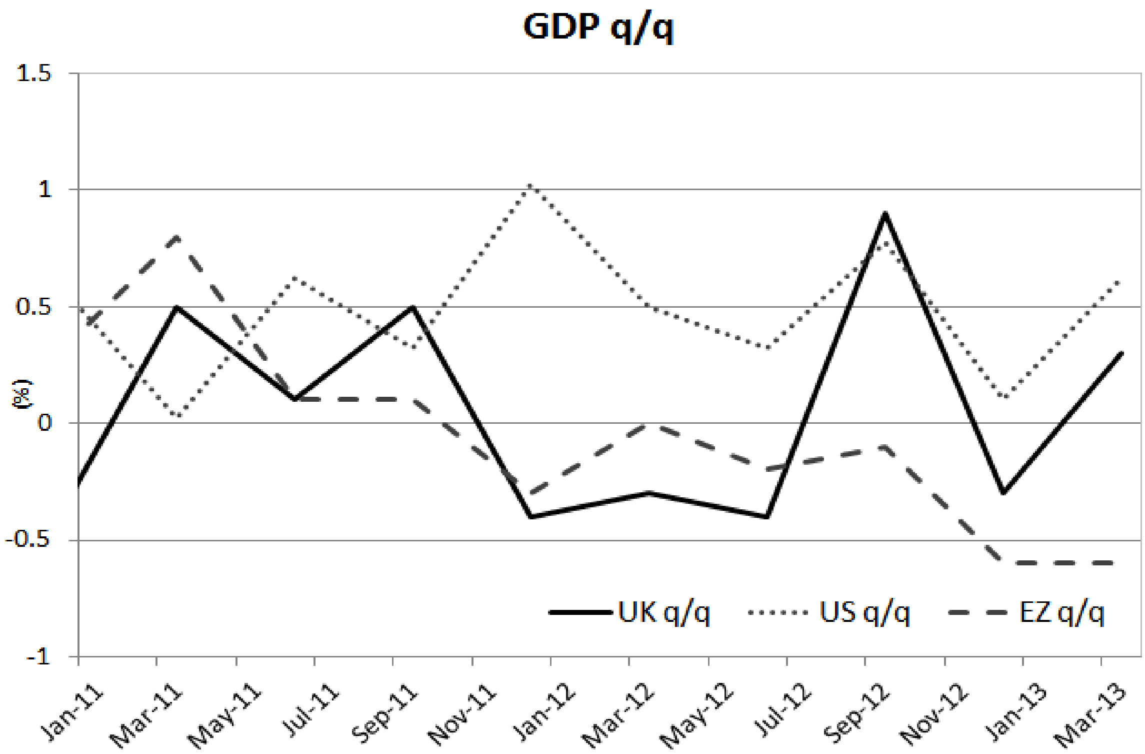
5.1 **The UK coalition Government** maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and Standard & Poors, will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level within a reasonable timeframe.

5.2 **UK growth.** 2012/13 started the first quarter with negative growth of -0.4%. This was followed by an Olympics boosted +0.9% in the next quarter, then by a return to negative growth of -0.3% in the third quarter and finally a positive figure of +0.3% in the last quarter. This weak UK growth resulted in the Monetary Policy Committee (MPC) increasing quantitative easing (QE) by £50bn in July to a total of £375bn on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases.

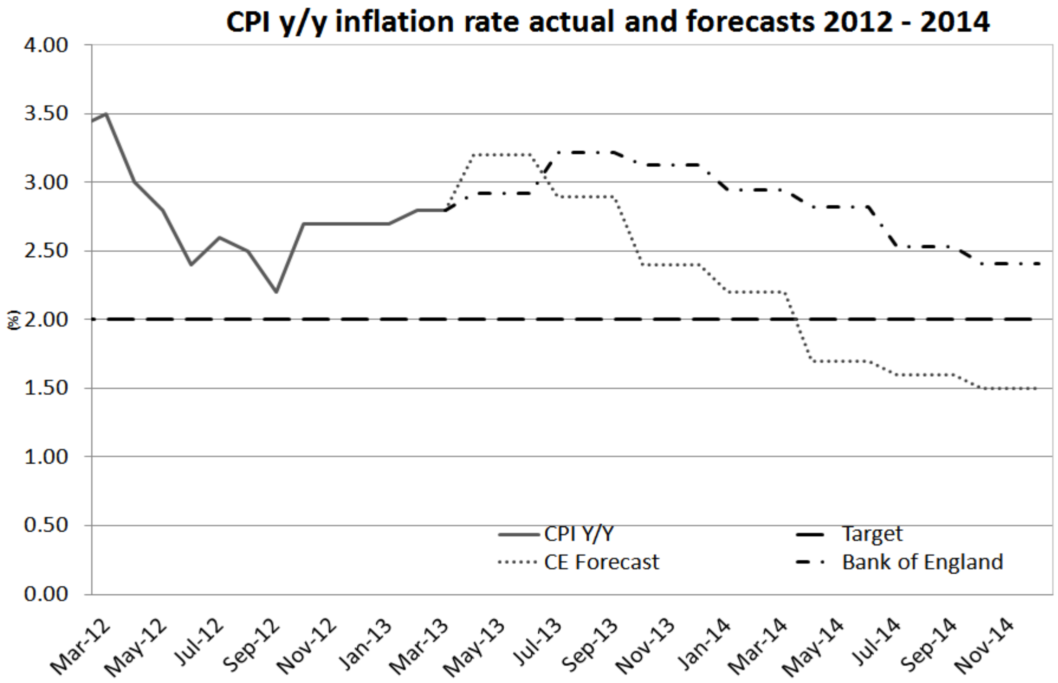
5. **THE ECONOMY AND INTEREST RATES 2012/13**

In the March 2013 Budget, the Office of Budget Responsibility yet again slashed it's previously over optimistic growth forecasts, for both calendar years 2013 and 2014, to 0.6% and 1.8% respectively. Gross Domestic Product (GDP) in the UK for 2012/13 is compared with the United States and Eurozone region in the following graph:

2012/13 UK GDP Growth compared to the US and Eurozone



5.3 **UK CPI inflation** has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March; however, it is forecast to fall to 2% in three years time. The MPC has continued its stance of looking through temporary spikes in inflation by placing more importance on the need to promote economic growth.



5.4 **Gilt yields** oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically low levels.

5.5 **Bank Rate** was unchanged at 0.5% throughout the year, while expectations of when the first increase would occur were pushed back to quarter 1 of 2015 at the earliest.

5.6 **Deposit rates**. The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

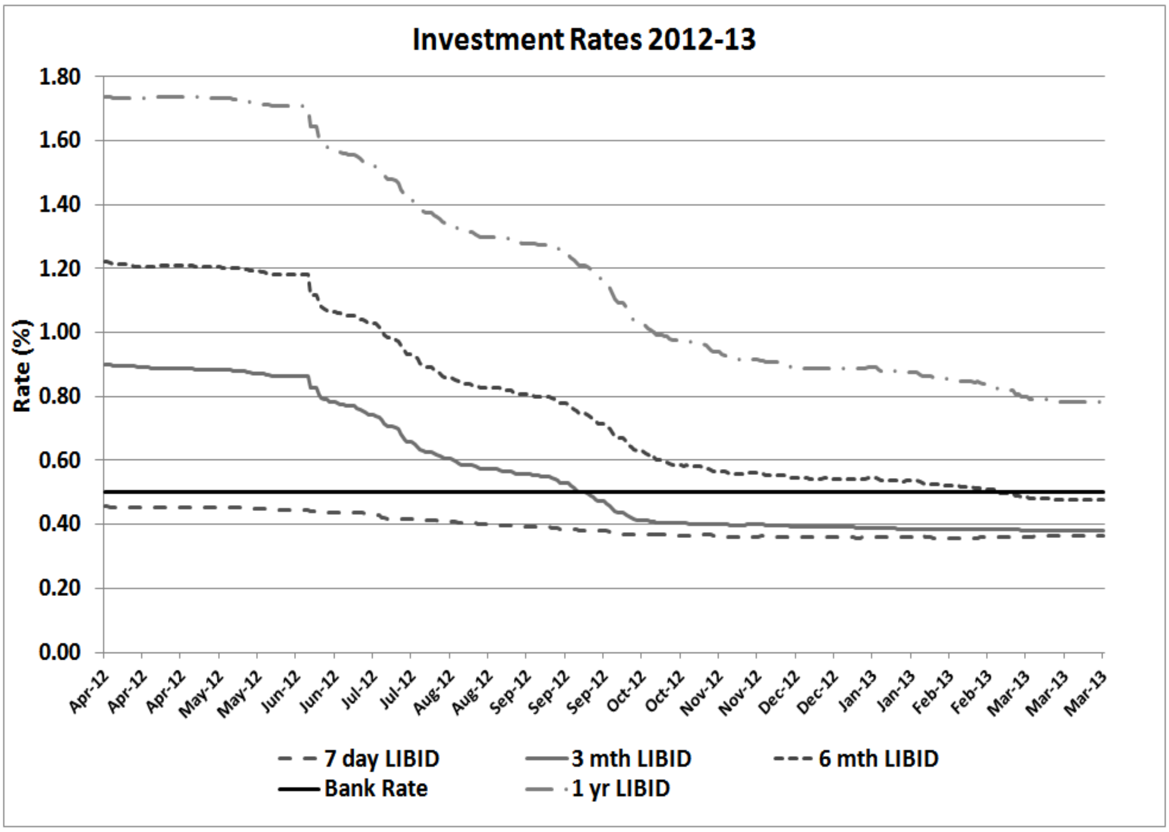
5.7 **Sovereign debt crisis.** The EU sovereign debt crisis was an on-going saga during the year. However, the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries provided a major boost in confidence that the Eurozone was (at last) beginning to get on top of its problems. This was followed by the establishment of the Outright Monetary Transactions Scheme in September. During the summer, a €100bn package of support was given to Spanish banks. The crisis over Greece blew up again as it became apparent that the first bailout package was insufficient. An eventual very protracted agreement of a second bailout for Greece in December was then followed by a second major crisis, this time over Cyprus, towards the end of the year. In addition, the Italian general election in February resulted in the new Five Star anti-austerity party gaining a 25% blocking vote; this has the potential to make Italy almost ungovernable if the grand coalition formed in April proves unable to agree on individual policies. This could then cause a second general election – but one which could yield an equally 'unsatisfactory' result!

5. **THE ECONOMY AND INTEREST RATES 2012/13**

This result emphasises the dangers of a Eurozone approach heavily focused on imposing austerity, rather than promoting economic growth, reducing unemployment, and addressing the need to win voter support in democracies subject to periodic general elections. This weakness leaves continuing concerns that this approach has merely postponed the ultimate debt crisis, rather than provide a conclusive solution. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

Investment Rates

5.8 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.



6. **INVESTMENT STRATEGY AND OUTTURN FOR 2012/13**

Investment Strategy

6.1 The Council's investment strategy aimed to secure investment interest for 2012/13 in the region of £294,000 as contained in the Budget Report. This equated to expected average returns on all investments of 1.556%. This target was set against the overriding criteria of security of principal sums invested, and liquidity of funds to service the Council’s operational cash flow requirements.

6.2 The outturn for the year resulted in total investment income of £539,239, an increase of £245,239 over the budgeted amount. The outturn equates to an average return on all investments of 1.794%.The variance between the actual outturn and budget estimate at the start of the year is analyzed as follows:

Investment Duration	**2012/13 Estimate**	**2012/13 Actual**	**Variance**
	(£000)	**(£000)**	**(£000)**
Up to 6 Months	44	50	6
6-12 Months	90	55	(35)
12 months or more	160	434	274
Total	**294**	**539**	**245**

6.3 The improvement in performance over budgeted returns is reflected in the increased availability of funds for investment during the year. The average balances predicted for 2012/13 (based upon 2011/12 actual balances) was £19m. In fact average balances for 2012/13 were £30m. This allowed more opportunity for investing in 364 day durations to maximize the returns from the Council’s approved counterparties, and with regard to the Council’s creditworthiness criteria.

6.4 In all, eighty five transactions were conducted in the year, five fewer than the year before, and amounting to a turnover of funds of £124.6m (£129.5m for 2011/12). The slight reduction in turnover reflects the higher durations of the investments made compared to 2011, including one new long term investment of £1m with Lloyds TSB that was placed for 373 days on 3 April 2012 at a return of 3.0%. All other investments were less than 1 year ranging in returns of 0.25% for overnight money to 2.75% for 364 day deposits.

6.5 The movement and composition of investment transactions during the year were:

2012/13 Movement	**Balance 01.04.12 £m**	**Raised in Year £m**	**Repaid in Year £m**	**Balance 31.03.13 £m**	**% of Funds at 31.3.13**
Investments					
Long-term > 1 year	9.000	1.000	(8.000)	2.000	9%
Short-term < 1 year	11.750	123.575	(113.825)	21.500	91%
TOTAL	**20.750**	**124.575**	**(121.825)**	**23.500**	**100%**

6. INVESTMENT STRATEGY AND OUTTURN FOR 2012/13

Investment Strategy

	No. of Transa-ctions	Amount Invested £m	Average Deal Size £m	Minimum Deal Size £m	Maximum Deal Size £m
Long-term (> 1 year)					
Banks	1	1.000	1.000	1.000	1.000
Building Societies	-	-	-	-	-
Total Long Term	**1**	**1.000**	**1.000**	**1.000**	**1.000**
Short-term < 1 year or less)					
Council's own Bank	8	9.000	1.125	1.000	2.000
Other Banks	8	8.500	1.890	1.000	1.500
Building Societies	28	38.500	1.375	1.000	2.000
Money Market Funds	40	67.575	1.690	0.500	3.000
Total Short-term	**84**	**123.575**	**1.454**	**-**	**-**
OVERALL TOTAL	**85**	**124.575**	**1.466**	**-**	**-**

6.6 Total funds increased by £2.75m over the financial year. The proportion of deals with the Council's own bank and with Money Market Funds remained broadly similar to the year before, but there were half as many transactions with other banks compared to the year before as preference was given to Building Societies that generally paid higher returns on the equivalent deals.

7. COMPLIANCE WITH TREASURY MANAGEMENT LIMITS AND PRUDENTIAL INDICATORS

7.1 The Council operates to approved Prudential Indicators for treasury management as contained in the Treasury Management Strategy Statement (TMSS). The TMSS for 2012/13 was reported to Council in March 2012. The approved limits exist to regulate short-term borrowing for operational cash flow fluctuations, as well as long-term borrowing for financing capital investments. Additionally, the limits aim to mitigate risk against fluctuations in interest rates.

7.2 The Council's treasury management limits and indicators for 2012/13 are compared with the outturn position, and previous year's outturn in Appendix 2. Actual performance was within the limits determined at the start of the year.

8. PERFORMANCE MEASURES

8.1 The Council's outturn performance in 2012/13 has been compared to an independently obtained Benchmark for 46 participating local authorities with the following results:

8. PERFORMANCE MEASURES

DEBT	Mid Sussex DC			All Other Member Councils	
	Average Interest Rate % for 2012/13	**Debt at 31.03.13 £m**	**% of Debt at 31.03.13**	**Average Interest Rate % for 2012/13**	**% of Debt at 31.03.13**
Short-term fixed Long term Fixed	- 4.41%	- 1.324	- 100%	- 4.87%	- 75%

8.2 The comparison shows that the rate of interest charged on the Council's long term fixed debt is below the average benchmark rate. The Council did hold a higher proportion of long term fixed debt than indicated by the benchmark, but this was more a reflection that the Council did not hold any temporary or variable rate long-term debt at 31 March 2013.

8.3 The council's investment returns exceeded all the benchmark returns excepting the return on Long Term Fixed investments. The difference is only marginal and difficult to know why without further information on the composition of the benchmark. However, one contributory reason is that the Council sought to maximise returns in the 364 day period, in view of prevailing market conditions and credit-worthiness considerations. This is reflected in the Council's outperformance of the benchmark for Short-term fixed investments.

INVESTMENTS	Mid Sussex Average Balances Held in Year(£m)	Mid Sussex Rate of Return %	Benchmark Average Return %
Short-term Fixed Money Market Funds Long-term Fixed Combined Balances/ Return	21.333 3.000 2.100 30.062	1.81 0.56 2.40 1.79	1.37 0.52 2.45 1.14

9. AMENDMENTS TO INVESTMENT COUNTERPARTY LENDING LIST

9.1 The Counter Party Approved Lending List was last reviewed and reported as part of the Treasury Management Strategy and Annual Investment Strategy Report approved by Council on 20 March 2013.

9.2 No counterparties have been added to or removed from the Counterparty lending list since that date. However, there appears elsewhere on the agenda of this meeting a separate report entitled "Treasury Management Policy Counterparty List", also from the Head of Finance, which recommends restrictions on investment for two of the counterparties on the current list. Members are therefore requested to consider alterations to the existing Counterparty lending list as part of their deliberations of the separate report, as well as considering this Annual Treasury Management Report.

9.3 The Council's investment exposure to counterparties during 2012/13 is shown in Appendix 1, and the limits of approved dealing is reproduced at Appendix 3.

10. MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT

10.1 The Council's policy is to provide for MRP on an annuity basis over the life of the loans taken out. An annuity is a fixed annual sum repaid to the lender comprising interest and principal. The principal component of MRP increases each year over the asset life as the proportion of interest outstanding reduces as the debt is repaid.

10.2 For 2012/13 an amount of £231,224 has been set aside in the annual accounts as the MRP for repayment of debt.

11. OTHER ISSUES AND MATTERS

Revisions to CIPFA Code of Practices

11.1 The November 2011 revision to the CIPFA Code of Practice for Treasury Management in the Public Services contained the Prudential Indicator applied in Section 4 of this report for the comparison of Net Debt with the Capital Financing Requirement. As stated in Para 4.4, with effect from 2013/14, this is to be replaced by the comparison of Gross Borrowing with the Capital Financing requirement from 2013/14.

Shared Services Arrangements

11.2 The Council's treasury management services are provided under a shared services arrangement performed by the in-house treasury management team formed out of partnership working between Adur District Council and Worthing Borough Council. The treasury management team is based at Worthing Town Hall, but services all three councils' treasury management operations from this location utilising similar banking arrangements.

11.3 The SSA is provided under a Service Level Agreement that commenced on 18 October 2010, and which defines the respective roles of the client and provider authorities for a period of three years. The expiry date for this agreement is 17 October 2013. The Head of Finance confirms that it is the intention to renew this arrangement on similar terms to those prevailing, subject to agreement with the Executive Head (Financial Services) for Adur and Worthing.

12. CONCLUSION

12.1 This report fulfils the requirements under the CIPFA Code of Practice for Treasury Management, as well as the Council's own treasury management practices, to present an annual outturn report on treasury management activity before 30 September, 2013.

12.2 The Council's performance during the year exceeded the budgeted returns for investment income, and was within the counterparty lending limits and Prudential Limits approved at the start of the year.

13. RECOMMENDATION

13.1 The Council is recommended to note the Annual Report for 2012/13.

Principal Author and Contact Officer: Tony Jackson – Extension 1261

Background Papers:

(1) Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 – 2014/15 (Report To Council, April, 2012)

(2) Half-Year In-House Treasury Management Operations Report 2012/13 (Audit Committee, 27 November, 2012)

(3) Template Annual Treasury Report 2012/13 (Sector)

(4) CIPFA Treasury Management Code of Practice in the Public services and Cross Sectoral Guidance (Nov 2011)

(5) CIPFA Prudential Code of Practice for Capital Finance in Local Authorities (Nov 2011)

MAXIMUM INVESTMENTS WITH EACH COUNTERPARTY IN 2012/2013

Name of Counterparty	Maximum Individual Investment	Maximum Holdings At Any Time	Balance at 31st March, 2013
	£m	£m	£m
Fixed Term Cash Deposits			
Banks			
Bank of Scotland	1.000	1.000	1.000
Barclays Bank	1.000	3.000	1.000
Clydesdale Bank	1.000	1.000	-
Lloyds TSB	1.000	4.000	3.000
Royal Bank of Scotland	1.000	3.000	3.000
Santander UK	1.500	4.000	-
Building Societies			
Coventry	2.000	3.000	-
Leeds	1.000	1.000	1.000
National Counties	1.000	1.000	1.000
Nationwide	2.000	3.000	2.000
Newcastle	2.000	3.000	3.000
Nottingham	2.000	2.000	2.000
Skipton	1.500	2.500	1.500
West Bromwich	2.000	3.000	1.000
Commercial Money Markets			
Invesco	3.000	3.000	-
Federated Prime Rate	3.000	3.000	-
Royal Bank of Scotland	3.000	3.000	-
Council's Own Bank			
Co-operative Bank	2.000	4.000	4.000
TOTAL INVESTMENTS AT 31ST MARCH, 2013			**23.500**

COMPLIANCE WITH PRUDENTIAL INDICATORS 2012/13

	2012/13 Actual	2012/13 Full year Estimate	2011/12 Actuals
	£'000	£'000	£'000
1. PRUDENTIAL INDICATORS			
Extract from budget			
Capital Expenditure			
Non - HRA	2.508	£2.490	£2.811
Ratio of financing costs to net revenue stream			
Non - HRA	-1.80%	-0.54%	0.06%
Borrowing Outstanding			
Brought forward 1 April	1.458	1.458	3.591
Carried forward 31 March	1.324	1.324	1.458
Net in year borrowing / (repayments)	(134)	(134)	(2.133)
Capital Financing Requirement as at 31 March			
Non – HRA	2.032	1.985	2.263
Change in Cap. Financing Requirement			
Non – HRA	-231	-278	-2.223
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	£-0.66	£0.15	£0.82
2. TREASURY MANAGEMENT INDICATORS			
Authorised Limit for external debt -	**Limit £'000**	**Limit £'000**	**Actuals (£'000) at 31.03.13**
Borrowing	£5.000	£5.000	£1.324
Other long term liabilities	£1.000	£1.000	£739
Operational Boundary for external debt			
Borrowing	£3.000	£3.000	£1.324
Other long term liabilities	£1.000	£1,000	£739
	Actuals at 31.03.13		**Actuals at 31.03.12**
Upper limit for fixed interest rate exposure			
Investments net of Borrowing	100%	100%	94.6%
Upper limit for variable rate exposure			
Investments net of Borrowing	0%	0%	5.4%
Upper limit for total principal sums invested for over 364 days	48%	50%	43%

COMPLIANCE WITH PRUDENTIAL INDICATORS 2012/13

The Maturity structure of fixed rate borrowing at 31 March 2013 is :	Proportion of Total Fixed rate Borrowing
under 12 months	0%
12 months and within 24 months	5%
24 months and within 5 years	0%
5 years and within 10 years	0%
10 years and above	95%

APPROVED INVESTMENT INSTITUTIONS

Specified Investments identified for use by the Council

New specified investments will be made within the following limits:

(a) *Banks (Approved Investment Regulation 2 (b))*

Major U.K. and European Banks and their wholly-owned subsidiaries meeting the Council's approved investment criteria.

		Group	Individual Sum and Maximum Period	
1	**HSBC Bank Group:**	**£5m**		
	• HSBC Bank plc		£4m	5 years
2	**The Royal Bank of Scotland Group:**	**£5m**		
	• The Royal Bank of Scotland plc		£4m	5 years
	• National Westminster Bank plc		£4m	5 years
	• Ulster Bank Belfast Limited		£1m	1 year
3	**Lloyds TSB Group:**	**£5m**		
	• Lloyds TSB Bank plc		£4m	5 years
	• Halifax plc		£4m	5 years
	• Bank of Scotland plc		£4m	5 years
	• HBOS Treasury Services plc		£4m	5 years
4	**Barclays Group:**	**£5m**		
	• Barclays Bank plc		£4m	5 years
5	**Santander Group:**	**£5m**		
	• Santander UK plc (incorporating Alliance and Leicester & Abbey)		£4m	5 years
6	**The Co-operative Bank plc.**		£5m	5 years
7	**Clydesdale Bank**		£4m	5 years

(b) *Building Societies (Approved Investment Regulation 2 (c))*

Building Societies (Assets in excess of £1 billion):

Rank *	Counterparty	Individual Sum	Individual Period
1	Nationwide	£3m	3 years
2	Yorkshire (Incorporating Norwich and Peterborough)	£3m	3 years
3	Coventry	£3m	3 years
4	Skipton	£3m	3 years
5	Leeds	£3m	3 years
6	West Bromwich	£3m	3 years
7	The Principality	£3m	3 years
8	Newcastle	£3m	3 years
9	Nottingham	£3m	3 years
10	Progressive	£3m	3 years
11	Cumberland	£3m	3 years
12	National Counties	£3m	3 years
13	Saffron	£3m	3 years
14	Cambridge	£3m	3 years

(c) *Money Market Funds (Approved Investment Regulation 2(2) and 2(3)(b))*

Counterparty	Sum	
Invesco Aim – Sterling	£3m	For Short Term Operational Cash Flow Purposes
BlackRock Institutional Sterling Liquidity Fund	£3m	
Ignis Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
Henderson Liquid Assets Sterling Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
Federated Primerate Sterling Liquidity Fund	£3m	
RBS – Global Treasury Fund - Sterling	£3m	

The limit for investing in any one Money Market Fund is £3 million. Total investments in Money Market Funds shall not exceed £5m or 25% of the total investment portfolio, whichever is the higher.

(d) **Local Authorities (Approved Investment Regulation 2 (i) and Schedule Part II)**

All the following local authorities mentioned in the Regulations

Schedule Part II Ref	**Details**	**Individual** Sum	**Individual** Period
1	***County Councils (England and Wales)***	***£3m***	***5 years***
2	***District Councils in England and Wales (including Borough, City, Metropolitan Borough Councils and Unitary Councils)***	***£3m***	***5 years***
3	***London Borough Councils***	***£3m***	***5 years***
4	***The Common Council of the City of London***	***£3m***	***5 years***
5	***The Council of the Isles of Scilly***	***£3m***	***5 years***
6	***(Joint authorities (police, fire, civil defence, transport) - see other public bodies)***		
7	***Combined police authorities***	***£3m***	***5 years***
8	***(Metropolitan Police - see other public bodies)***		
9 - 13	***(not permitted)***		
14	***(Levying body under s.74 LGFA 1988 - see other public bodies)***		
15	***(Special levying body s.75 LGFA 1988 - see other public bodies)***		
16	***Regional, Islands, or District Councils in Scotland***	***£3m***	***5 years***
17	***Joint boards under s.235(1) of LG (Scotland) Act 1973***	***£3m***	***5 years***
18 - 27	***(See other public bodies)***		
28	***District Councils in Northern Ireland***	***£3m***	***5 years***
29	***Police Authorities under s.3 Police Act 1964 as substituted by s.2 Police & Magistrates Courts Act 1994***	***£3m***	***5 years***

(e) **<u>Nationalised Industries and other Public Bodies (Approved Investment Regulation 2 (i) and Schedule Part II)</u>**

Permitted lending:

Schedule Part II Ref	Details	Individual	
		Sum	Period
1 - 5	(See local authorities)		
6	Police, Fire, Civil Defence, and Waste Disposal Authorities	***£3m***	***1 year***
6	Passenger Transport Authorities	***£3m***	***1 year***
7	(See local authorities)		
8	Receiver for the Metropolitan Police	***£3m***	***1 year***
9 - 13	(not permitted)		
14	**Levying bodies s.74 LGFA 1988:-**		
	Residuary Bodies	***£2m***	***1 year***
15	Special levying bodies s.75 LGFA 1988		
16 - 17	(See local authorities)		

Schedule Part II Ref	Details	Individual	
		Sum	Period
18	The British Coal Corporation	}	
19	The British Railways Board	}	
20	The British Waterways Board	}	
21	The Civil Aviation Council	}	
22	London Regional Transport	}	
23	The Post Office	} £3m	1 year
24	The Commonwealth Devt. Corporation	}	
25	Nuclear Electric Limited	}	
26	Scottish Nuclear PLC	}	
27	United Kingdom Atomic Energy Council	}	

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
BANK / BANKING INSTITUTION	In order to be called a **bank** and before it may accept **deposits,** an institution has to be authorised by the Financial Services Authority, which took over the regulation of banks from the Bank of England as a result of the Financial Services and Market Act 2000.
BROKER	An agent whose purpose is to bring together principals (borrowers and lenders) and facilitate efficient dealing. They charge a commission or brokerage fee (normally a percentage of the sum dealt) to the borrower - the lender pays no commission.
BUILDING SOCIETY	A well-known type of financial institution, authorised under the Building Societies Act 1986, whose traditional business of taking in small savings from individuals ('members') and lending out mortgages for house purchase has expanded in recent years to cover many additional financial services. The rankings given to **building societies** - e.g. top 5 - refer to the relative size in terms of asset size (published annually in *Butlers Building Society Guide*).
CALL DEPOSIT	A **notice deposit** on which the interest rate can be varied or repayment requested on the same day providing **notice** is given by mid-day.
CLEARING BANK	For the purpose of the Council's permitted lending list there are 7 major 'high-street' **clearing banks** (Barclays, HSBC, Lloyds-TSB, Abbey National, Royal Bank of Scotland (which now includes National Westminster), Halifax-Bank of Scotland and Co-operative.
CREDIT RATING	A measure of the perceived ability of an organisation (**bank** or top **building society**) to meet its interest and debt repayment obligations. Several specialist **credit rating** agencies exist - e.g. Moodys, Standard & Poors, and Fitch IBCA.
CONSUMER PRICE INDEX	The **Consumer Price Index (CPI)** is the official measure of inflation of consumer prices of the United Kingdom. It is also called the **Harmonised Index of Consumer Prices (HICP).**
DEPOSIT (CASH DEPOSIT)	A non-tradable interest-paying **investment**.
FIXED (INTEREST)	Refers to a **deposit** where the interest rate is determined on the start date and remains in force until maturity.
FOREIGN BANK	A **bank** which is incorporated outside the UK, but which may have a UK office or UK incorporated **subsidiaries**.

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
FUND MANAGER	A company providing professional expertise on managing **investments** in return for a fee, which is normally, a percentage of the funds managed or a fee based on a claimed performance.
GROSS DOMESTIC PRODUCT (GDP)	**Gross domestic product** (**GDP**) is the market value of all officially recognized final goods and services produced within a country in a given period of time.
INTERBANK	See **LIBOR** and **money market**.
INVESTMENT	A generic term from the lender's perspective, which includes cash **deposits**.
LIBID	See **LIBOR**.
LIBOR / LIBID	**LIBOR** and **LIBID** are the *averages* of the rates of interest at which major **banks** conduct business in the London **interbank money market** at 11 a.m. each business day: **LIBOR** (**L**ondon **i**nter**b**ank **o**ffered **r**ate) is the rate at which the major banks are prepared to lend (i.e. offer) money to the money market. **LIBID** (**L**ondon **i**nterbank **bid** rate) is the rate at which the reference banks are prepared to borrow (i.e. bid) money from the money market. Both **LIBOR** and **LIBID** rates are published daily in the ***Financial Times*** for periods ranging from **overnight** to 1 year. They are important to **local authorities** as 'benchmark' rates for assessing performance.
LOCAL AUTHORITY	For the purpose of investment, **local authority** means one of the *principal* authorities - i.e. County Councils; London Borough Councils and the City of London Corporation; Metropolitan Borough and City Councils; 'shire' and ‘unitary’ District, Borough, and City Councils (England and Wales); ‘unitary’, Regional, Islands, and District Councils (Scotland); and District Councils (Northern Ireland).
LONG-TERM DEPOSIT/ INVESTMENT	Normally used to mean an **investment** for a period of 1 year or more.
MONEY MARKET	The process of wholesale lending and borrowing in the City of London, which is regulated by the Bank of England. The largest market is the **interbank** market, and other important markets are **local authorities** and **building societies**. Much business is arranged via money **brokers**.

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
MONEY MARKET FUNDS	Stand-alone pooled investment funds that actively invest their assets in a diversified portfolio of high-grade, short-term money market instruments.
NOTICE DEPOSIT	A **deposit** on which the interest rate can be varied or repayment made by either borrower or lender on giving a required period of **notice**. The most common types of **notice deposits** are **call**, 2 days or 7 days.
OVERNIGHT	The shortest **deposit** that can be made in the **money markets**, and which has the most volatile interest rate from day to day. '**Overnight**' refers to banking days - so that, for example, an '**overnight**' **deposit** made on the day before Good Friday would mature on the following Tuesday, a period of 5 days including the weekend and bank holidays.
QUARTER ON QUARTER (q/q)	The "q/q" expression used in this report denotes the movement of an index or measure (e.g. GDP) over a three month i.e. quarterly period of time.
SHORT-TERM DEPOSIT / INVESTMENT	Normally used to mean an **investment** for a period of between **overnight** and 364 days - i.e. less than 1 year from start to maturity.
SUBSIDIARY	Normally used to refer to a **banking institution**, which is wholly owned, by a **clearing bank**. Examples include Ulster Bank Belfast Ltd (**subsidiary** of Royal Bank of Scotland).
VARIABLE (INTEREST)	Refers to a **deposit** where the initial interest rate can be varied by giving the required period of **notice**.
YEAR ON YEAR (y/y)	The Year-on-year (y/y) expression used in this report indicates the change of an index or measure (e.g. inflation) expressed over the corresponding period (i.e. the previous year).