WIRRAL COUNCIL

BUDGET CABINET

21 FEBRUARY 2011

SUBJECT	**TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2011-14**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	**COUNCILLOR JEFF GREEN**
KEY DECISION	**YES**

1.0 EXECUTIVE SUMMARY

1.1 This report sets out the Treasury Management and Investment Strategy for 2011-2014 in accordance with the CIPFA Code of Practice for Treasury Management in Public Services.

2.0 RECOMMENDATIONS

2.1 That Members approve the Treasury Management and Investment Strategy for 2011-2014.

2.2 That the Prudential Indicators be adopted.

2.3 That Members approve the Minimum Revenue Provision policy.

2.4 That the Council Officers listed within Appendix D, of the Strategy Statement, be authorised to approve payments from Council bank accounts for all treasury management activities.

3.0 REASONS FOR RECOMMENDATIONS

3.1 The Chartered Institute of Public Finance and Accountancy Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Investment Guidance issued by the Department for Communities and Local Government (DCLG).

3.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

4.0 BACKGROUND AND KEY ISSUES

4.1 CIPFA has defined treasury management as:

"the management of the organisation's investments and cash flows, 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."

4.2 The Council acknowledges that effective treasury management will provide support towards the achievement of business and service objectives. It is, therefore, committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective treasury management.

4.3 The purpose of the attached Treasury Management Strategy Statement is to set:

- The Treasury Management Strategy for 2011-14 - The long term direction for Council borrowing, debt rescheduling and investments.
- The Prudential Indicators – information to ensure that capital investment is affordable, prudent and sustainable.
- The Minimum Revenue Provision (MRP) Statement – The policy on the repayment of long term debt.
- Authorised signatories for treasury management activities.

5.0 RELEVANT RISKS

5.1 The Council is responsible for treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of treasury management activities. The main risks to the treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

6.0 OTHER OPTIONS CONSIDERED

6.1 There are no other options considered in this report.

7.0 CONSULTATION

7.1 There has been no consultation undertaken or proposed for this strategy report. There are no implications for partner organisations arising out of this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are none arising out of this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 Approval and implementation of this strategy will limit financial risks while helping to minimise financing costs and maximise investment returns.

10.0 LEGAL IMPLICATIONS

10.1 There are none arising out of this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising out of this report.

11.2 An Equality Impact Assessment (EIA) is not required.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising out of this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising out of this report.

REPORT AUTHOR: **Mark Goulding**
Group Accountant – Treasury Management
telephone: (0151) 666 3415
email: markgoulding@wirral.gov.uk

FNCE/26/11

APPENDICES

Treasury Management and Investment Strategic Statement 2011-2014

REFERENCE MATERIAL

DCLG Local Authority Investment Guidance, 2004
DCLG Changes to the Capital Financing System Consultation, 2009
Code of Practice for Treasury Management in Public Services (Fully Revised Second Edition), CIPFA 2009.
Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition), CIPFA 2009.

SUBJECT HISTORY

Council Meeting	**Date**
Cabinet - Treasury Management and Investment Strategy 2010 to 2013	22 February 2010
Cabinet - Treasury Management Annual Report 2009/10	24 June 2010
Cabinet - Treasury Management Performance Monitoring	22 July 2010
Cabinet - Treasury Management Performance Monitoring	14 October 2010
Cabinet – Treasury Management Performance Monitoring	3 February 2011

WIRRAL COUNCIL

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2011-2014

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CABINET
FEBRUARY 2011

1. Background

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

1.2 CIPFA has defined treasury management as:

"the management of the organisation's investments and cash flows, 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."

1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral element to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.4. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix A), the Prudential Indicators and the outlook for interest rates (Appendix B).

1.5 The purpose of this Treasury Management Strategy Statement is to approve:

- Treasury Management Strategy for 2011/12 (Borrowing and Debt Rescheduling - Section 3, Investments - Section 4).
- Prudential Indicators (note: The Authorised Limit is a statutory limit).
- MRP Statement – Section 8.
- Use of Specified and Non-Specified Investments – Appendix C.

2. Balance Sheet and Treasury Position

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) and together with balances and reserves are the core drivers of treasury management activity. The estimates, based on the current revenue budget and capital programme, are set out below:

	31-Mar-11 Estimate £m	31-Mar-12 Estimate £m	31-Mar-13 Estimate £m	31-Mar-14 Estimate £m
Capital Financing Requirement (CFR)	389	394	394	384
Less: Existing Profile of Borrowing and Other Long Term Liabilities	342	324	305	273
Cumulative Maximum External Borrowing Requirement	**47**	**70**	**89**	**111**
Balance and Reserves	103	90	80	80
Cumulative Net Borrowing Requirement / (Investments)	**-56**	**-20**	**9**	**31**

2.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure

2.3 It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Capital Expenditure	**78,595**	**73,845**	**67,552**	**53,910**	**tbc**

2.4 Capital expenditure is expected to be financed as follows:

Capital Financing	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Supported Borrowing	5,300	5,300	0	0	tbc
Unsupported Borrowing	9,040	14,374	23,084	18,220	tbc
Capital Receipts	3,000	3,000	3,000	3,000	tbc
Capital Grants	60,905	50,304	41,168	32,390	tbc
Revenue Contribution	350	867	300	300	tbc
Total Financing	**78,595**	**73,845**	**67,552**	**53,910**	**0**

Incremental Impact of Capital Investment Decisions:

2.5 As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2010/11 Approved £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	8.47	13.54	10.10	tbc

2.6 The estimate for interest payment in 2011/12 is £15.7 million and for interest receipts is £1.3 million. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability. It highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meeting borrowing costs. The ratio is based on costs net of investment income.

Ratio of Finance Costs to net Revenue Stream	2010/11 Approved %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Esimate %	2013/14 Estimate %
Ratio	8.74	7.99	9.31	10.03	10.25

3. Borrowing and Debt Rescheduling Strategy

3.1 The Council's balance of Actual External Debt (gross borrowing plus other long term liabilities) as at 31 March 2010 was £352 million. A detailed breakdown of this figure is provided in Appendix A. This Prudential Indicator is a measure in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

3.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determine under Section 3 (1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit)

Authorised Limit for External Debt	**2010/11 Approved £m**	**2010/11 Revised £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
Borrowing	469	494	489	481	473
Other Long-term Liability	15	8	8	8	8
Total	**484**	**502**	**497**	**489**	**481**

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

Operational Boundary for External Debt	**2010/11 Approved £m**	**2010/11 Revised £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
Borrowing	459	484	479	471	463
Other Long-term Liability	10	3	3	3	3
Total	**469**	**487**	**482**	**474**	**466**

3.4 The Director of Finance has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet.

3.5 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from financial institutions
- Borrowing from the Money Markets
- Local authority stock issues or bills
- Structured finance

3.6 Notwithstanding the issuance of Public Works Loan Board (PWLB) Circular 147 on 20 October 2010, following the Comprehensive Spending Review announcement, which increases the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable

3.7 Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintaining stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.

3.8 PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Authority's Treasury Advisor.

3.9. The Council has £174 million loans which are LOBO loans (Lender's Options Borrower's Option) all of which are currently in their call period. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB. The default response will however be early repayment without penalty.

3.10 The rationale for debt rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

As opportunities arise, they will be identified and analysed.

3.11 Any borrowing and debt rescheduling activity will be reported to Cabinet.

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

3.13 In order to increase the understanding of this indicator, separate upper limits for the percentage of fixed and variable rates are shown for borrowing and investment activity, as well as the net limit.

	2010/11 Approved %	**2010/11 Revised %**	**2011/12 Estimate %**	**2012/13 Estimate %**	**2013/14 Estimate %**
Upper Limit for Fixed Interest Rate Exposure					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100
Net	**200**	**200**	**200**	**200**	**200**
Upper Limit for Variable Interest Rate Exposure					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100
Net	**200**	**200**	**200**	**200**	**200**

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

3.15 The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to offer flexibility against volatility in interest rates when refinancing maturing debt.

Maturity structure of fixed rate borrowing	**Lower Limit 2011/12 %**	**Upper Limit 2011/12 %**
Under 12 Months	0	20
12 months and within 24 months	0	20
24 months and within 5 years	0	50
5 years and within 10 years	0	50
10 year and above	20	100

4. Investment Policy and Strategy

4.1 Guidance from the CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

4.2 The Council's investment priorities are:

- Security of the invested capital
- Liquidity of the invested capital
- An optimum yield which is commensurate with security and liquidity

4.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendix C. The Director of Finance, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to Cabinet meetings. (see Section 6, Policy on Delegation).

4.4 Changes to investment strategy for 2011/12 include:

- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds
- T-Bills
- Local Authority Bills
- Term deposits in Sweden
- Maximum duration for new term deposits 2 years

4.5 The Council's current level of investments is presented at Appendix A.

4.6 The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

4.7 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

4.8 The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
- Credit Default Swaps (where quoted)
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms/ potential support from a well-resourced parent institution
- Share Prices (where quoted)
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment.

4.9 The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

4.10 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

4.11 To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2 year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix C). The longer-term investments will be likely to include:

- Term Deposits with counterparties rated at least A+ (or equivalent)
- Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

4.12 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. 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.

	2010/11 Approved £m	**2010/11 Revised £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
Upper Limit for total principal sums invested over 364 days	30	30	30	30	30

4.13 Collective Investment Schemes (Pooled Funds):
The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

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

5. Outlook for Interest Rates

5.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

6. Policy on Delegation

6.1 The Council has responsibility for all matters concerned with treasury management. These are delegated to the Director of Finance in accordance with the Constitution scheme of delegation.

6.2 On a day to day basis the Treasury Management Team within the Accountancy Section carries out the treasury management activities.

6.3 Decisions on short term investments and short term borrowings may be made on behalf of the Director of Finance by the Group Accountant for Treasury Management or any of the members of the Treasury Management Team who are empowered to agree deals subject to their conforming to the Authority's treasury management strategy and policies outlined in this report.

6.4 Actual authorisation of payments from the Authority's bank account will be made by the Director of Finance, the Deputy Director of Finance, the Finance Heads of Service or the Chief Accountants, listed in Appendix D.

6.5 Decisions on long term investments or long term borrowings (i.e. for periods greater than one year) may be made on behalf of the Director of Finance by the Group Accountant or the Senior Assistant Accountants on the Treasury Management Team and will be reported to Cabinet.

6.6 All officers will act in accordance with the policies contained within this document.

7. Balanced Budget Requirement

7.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. 2011/12 Minimum Revenue Provision Statement

8.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

8.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method
NB this does not preclude other prudent methods

8.3 MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

8.4 The MRP Statement will be submitted to Council before the start of the 2011/12 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

8.5 The Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.

8.6 For prudence, when Option 3, the asset life method, is applied to the funding of an asset with a life greater than 25 years the Council will apply a default asset life of 25 years. Estimating assets lives over 25 years is difficult to achieve accurately; therefore, using a default of 25 years is considered the most prudent approach and is in keeping with the Regulations.

8.7 MRP in respect of PFI and leases brought on Balance Sheet under International Financial Reporting Standards (IFRS) will also be calculated using Option 3 and will match the annual principal repayment for the associated deferred liability.

9. Performance Monitoring and Reporting

9.1 The Director of Finance will report to Cabinet on treasury management activity / performance as follows :

- Quarterly against the strategy approved for the year. (CIPFA requires as a minimum a mid-year and year end review of treasury activity).
- The Council will produce an Outturn Report on its treasury activity no later than 30 September after the financial year end.
- Council Excellence Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31-Mar-10 Actual £m	%	31-Mar-11 Revised £m	31-Mar-12 Estimate £m	31-Mar-13 Estimate £m	31-Mar-14 Estimate £m
External Borrowing:						
Fixed Rate – PWLB	106	38	100	109	113	107
Fixed Rate – Market	174	62	174	174	171	158
Variable Rate – PWLB	0	0	0	0	0	0
Variable Rate – Market	0	0	0	0	0	0
Total External Borrowing	280	100	274	283	284	265
Other long-term liabilities:						
PFI	69	96	66	56	45	34
Finance Leases	3	4	2	2	1	1
Total Other Long-Term Liabilities	72	100	68	58	46	35
Total External Debt	**352**		**342**	**341**	**330**	**300**
Investments:						
Managed in-house						
Deposits with Banks and Building Societies	85	59	80	51	41	41
Deposits with Money Market Funds	50	35	30	30	30	30
Deposits in Supranational Bonds and Gilts	8	6	8	8	8	8
Managed externally						
Payden Sterling Reserve	1	1	1	1	1	1
Total Investments	144	100	119	90	80	80
Net Borrowing Position	208		223	251	250	220

APPENDIX B

ECONOMIC AND INTEREST RATE OUTLOOK (ARLINGCLOSE)

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Official Bank Rate													
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	**0.50**	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**2.00**	**2.50**	**2.75**	**2.75**	**3.00**	**3.00**	**3.00**
Downside risk	-	-	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
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	**1.65**	**1.90**	**2.15**	**2.40**	**2.50**	**2.50**	**2.75**	**3.00**	**3.25**	**3.50**	**3.50**	**3.50**	**3.50**
Downside 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
5-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	**2.75**	**3.00**	**3.25**	**3.50**	**3.75**	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**	**4.25**	**4.25**	**4.00**
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
10-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.90**	**4.00**	**4.10**	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**	**5.00**	**5.00**	**4.75**
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
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**4.50**	**4.75**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.25**	**5.25**	**5.00**
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
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	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.50**	**4.50**	**4.50**	**4.50**	**4.75**	**4.75**	**4.50**
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

- The recovery in growth is likely to be slow and uneven.
- The initial reaction to the CSR is positive, but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Underlying assumptions:

- The framework and targets announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt will be put to the test; meeting the 2010 borrowing target of £149bn will be crucial to the gilt market's confidence in the credibility of the deficit reduction plans.
- Despite Money Supply being weak and growth prospects remaining subdued, the MPC has gravitated towards increasing rates in the New Year as global inflation continues to rise along with household inflation.
- Consumer Price Inflation is stubbornly above 3% and is likely to spike above 4% in the first quarter of 2011 as a result of VAT, Utilities and Rail Fares.

- Unemployment remains near a 16 year high, at just over 2.5 Million, and is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is mainly due to part time work, leaving many with reduced income.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore the outlook for growth.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

APPENDIX C

SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments

Specified Investments Defined

Specified Investments will be those that meet the criteria CLG Guidance, i.e. the investment:-

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high" credit criteria as determined by the Council or is made with the UK Government or is made with a Local Authority in England, Wales, Scotland or Northern Ireland or a parish community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate)

Types of Specified Investments

Specified Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK Government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills) and Local Authority Bills (LA Bills)
- AAA-rated Money Market Funds with a constant net asset value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

** Investments in these instruments will be on advice from the Council's treasury advisor.*

Minimum Credit Rating Criteria for Specified Investment

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long-term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)
Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

This means that the Council will only make investments that have high credit rating, or above, for both long and short term investments. The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties and will not rely solely on these credit ratings.

New specified investments will be made within the following limits:

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£15m
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	£15m
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	£30m
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	£15m
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£15m

Sovereign Country Limits
For in-house investments within UK banks and building societies the maximum sovereign limit will be 100% of total investments.

For in-house investments within non-UK banks the maximum sovereign limit will be £30m. This means that all the Council's investments can be made with non-UK institutions but it limits the risk of over-exposure to any one country.

NB The limits above are maximum limits. The Treasury Management Team will adjust individual counterparty, group and country limits according to individual circumstances but remain within these maximum limits.

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Non-Specified Investments

Having considered the rationale and risk associated with Non-Specified Investments, the following has been determined for the Council's use :

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	✓	✓	5 yrs	40% in aggregate	No
Gilts and bonds ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK Government ▪ Sterling denominated bonds by non-UK sovereign Governments	✓ (on advice from treasury advisor)	✓	10 years	50% in aggregate	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573) but which are not credit rated	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	50%	No

-Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies -Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies -Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	✓(on advice from treasury advisor)	✓	10 years 10 years These funds do not have a defined maturity date	£10M	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

Minimum Credit Rating Criteria for Non-Specified Investment
For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long-term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)
Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

Investment Limits
The limits for each type of non specified investment are shown in the table above. However, the individual counterparty, group and country limits stated with the specified investment section takes precedent over the limits in the table above.

APPENDIX D

AUTHORISED SIGNATORIES

The following officers are authorised to make payments, either via the Council's online banking system or by signing cheques, and issue other instructions relating to Treasury Management transactions on behalf of Wirral Borough Council:

Director of Finance – Ian E. Coleman

Deputy Director of Finance – David L.H. Taylor-Smith

Head of ICT – Vacant

Head of Benefits, Revenue and Customer Services – Malcolm J. Flanagan

Head of Financial Services – Thomas W. Sault

Head of Support Services – Vacant

Chief Accountant – Peter J. Molyneux

Chief Accountant – Robert D. Neeld

Chief Accountant – Jenny Spick