COUNCIL

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TREASURY MANAGEMENT STRATEGY 2012/2013

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Summary

This report sets out the Council's Treasury Management Strategy for the 2012/2013 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision policy.

1. Budget and Policy Framework

1.1 Business Support Overview and Scrutiny Committee is responsible for the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement.

1.2 Following scrutiny by Business Support Overview and Scrutiny, Cabinet will consider the strategy taking into account Overview and Scrutiny's comments.

1.3 Cabinet is responsible for the approval of the Treasury Management Practices.

1.4 Final approval of the policy and the setting of prudential indicators is a matter for Council.

2. Background

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.3 CIPFA defines treasury management as:

"The management of the local authority'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. "

2.4 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 25 February 2010.

2.5 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices, this has been delegated to Cabinet and for the execution and administration of treasury management decisions has been delegated to the Chief Finance Officer
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, this has been delegated to the Business Support Overview and Scrutiny Committee.

2.6 The suggested strategy for 2012/13 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector.

2.7 In exercising the delegations to fulfil the responsibilities set out in the Treasury Management Strategy the Council will establish a set of standards to govern the manner in which these responsibilities are exercised. These standards are referred to as the Treasury Management Practice statements and are supported by the requisite Schedules that flow from the exercise of those

Practices. These documents were originally approved by Cabinet on 15 February 2011, and Cabinet agreed some amendments to Treasury practices flowing from this report as well as external sources on 14 February 2012.

2.8 Specifically the elements that are changing are:

- Country limits in relation to the UK sovereign credit rating
- Fund Manager – minimum criteria
- Specified and Non-Specified Investments
- Approved Countries
- Treasury and Prudential Indicators.

2.9 The strategy for 2012/13 covers:

- Capital plans and the prudential indicators
- The MRP strategy
- The current treasury position
- Treasury indicators which will limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment strategy
- Creditworthiness policy
- Policy on use of external service providers.

2.10 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

3. The Prudential and Treasury Indicators 2012/13 – 2014/15

3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist Members overview and confirm capital expenditure plans.

3.2 Whilst the current and proposed borrowing strategy is to avoid new borrowing and reduce cash balances, the impact of the reform of the Housing Revenue Account (HRA) will cause a deviation from that strategy. The recently enacted Localism Bill confirms the Government intention to end the HRA subsidy regime. As part of the process of changing from the subsidy system to the new self-financing regime the Council will be required to take on additional debt of £19.144 million.

3.3 This additional debt burden will be allocated as HRA debt, and the prudential indicators for 2011/12 will have to be adjusted to reflect this change. The additional borrowing requirement, which for Medway is comparatively small, is being accompanied by a preferential rate offer from the Public Works Loans Board (PWLB) – effectively a discount of 0.85% - that makes the take-up of that offer a prudent tactic.

3.4 Capital prudential indicators are summarised within appendix 3. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Due to uncertainties over future funding the Capital expenditure only encapsulates the Capital programme currently approved supplemented by the Councils expectations in relation to grant.

3.5 It is a statutory duty for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the authorised Limit represents the legislative borrowing limit.

3.6 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

3.7 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in appendix 3 of this report.

3.8 The Prudential and Treasury indicators are set out in appendix 3 to this report and are relevant for the purposes of setting an integrated treasury.

4. Treasury Management Strategy

4.1 The capital expenditure plans set out in Section 3 and in the prudential indicators, appendix 3, provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy. These are covered in detail in paragraphs 5 to 12.

5. Current Portfolio Position

5.1 The Council's treasury portfolio position at 31 March 2012 is anticipated to be as summarised below.

Table 1		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	80.54		
	Market	101.80	182.34	4.16
Variable rate funding	PWLB	0.00		
	Market	0.09	0.09	1.00
Gross debt			**182.43**	
Internal Investments		35.72		1.38
External Investments		22.84		1.50
Total investments			**58.56**	
Net debt			**123.87**	

6. Borrowing requirement

6.1 With the exception of borrowing in order to fund the HRA reform, no further borrowing is envisaged for the foreseeable future because of the relative position of investment returns and rates for new borrowing.

6.2 The Council is limited to a maximum HRA Capital Financing Requirement (CFR) through the HRA self-financing regime. This limit is currently £45.846 million and forms a new Treasury indicator albeit some £4.7 million higher when set against the required debt take-up.

7. Prospects for Interest Rates

7.1 The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
	%	3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

7.2 Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

7.3 Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

7.4 This challenging and uncertain economic outlook has a several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods
- Investment returns are likely to remain relatively low during 2012/13
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

8. Borrowing Strategy

8.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt. Cash balances derived from reserves, balances and cash flow have been used as an interim measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing excluding the HRA reform settlement.

8.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

8.3 The requirement for the HRA reform settlement referred to earlier, require a pragmatic variation to this strategy. The Council will need to have the cash settlement amount of £19.144 million available by the 28 March 2012, so separate borrowing solely for this purpose is anticipated utilising the preferential rate available. The exact structure of debt to be drawn down is currently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council but it is expected that this will be for a longer term period to support the strategic requirements of the HRA investment programme.

8.4 It is proposed that the Council will borrow the HRA reform payment on the 28 March 2012 because of the compelling nature of the PWLB rates. The Council also has discretion as to whether it operates a separate pool for HRA debt from that of General Fund debt but at this stage it is proposed to operate as a single pool as current rather than suffer the complexity of determining the split of existing debt and the administrative overhead of the additional treasury requirements. Whilst it is acknowledged that there is a marginal benefit to the General Fund from this approach it also reduces the debt management cost for the HRA.

9. External v. internal borrowing

TABLE 3: Comparison of gross and net debt positions at year end	2011/2012	2012/2013	2013/2014	2014/15
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£'000	£'000	£'000	£'000
Actual external debt (gross)	182,429	172,410	162,416	162,415
Cash balances	59,107	52,817	50,726	58,820
Net debt	123,322	119,599	111,689	103,596

9.1 It is anticipated that the difference between gross debt and net debt (after deducting cash balances), by the end of the current financial year will be £58.5 million.

9.2 The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken in prior years have already reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

9.3 2012/13 is expected to see a continuance of historically very low Bank Rate and supports the continued strategy to resist borrowing and reduce cash balances as over the next three years, investment rates are expected to be below long-term borrowing rates. Value for money considerations would indicate that best value is obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short-term savings.

9.4 However, short term savings by avoiding new long-term external borrowing must also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

9.5 The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that large premiums would be incurred by such action and would also do so in the near term; such levels of premiums cannot be justified on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

9.6 Against this background caution will be adopted with the 2012/13 treasury operations. The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances with decisions reported within the reviews of this strategy.

10. Policy on Borrowing in Advance of Need

10.1 The Council will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

10.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

11. Debt Rescheduling

11.1 As short-term borrowing rates will be considerably cheaper than longer-term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

11.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

11.4 Decisions related to rescheduling will similarly be reported in reviews of this strategy.

12. Annual Investment Strategy

12.1 <u>Investment Policy</u>

12.1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sector

Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities will be security first, liquidity second, and lastly the return on investment.

12.1.2 In accordance with guidance from CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service banks’ ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

12.1.3 Further, the Council’s officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “Credit Default Swaps” and overlay that information on top of the credit ratings. This is fully integrated into, the credit methodology provided by the advisors, Sector in producing its colour codings which show the varying degrees of creditworthiness.

12.1.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

12.1.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

12.1.6 The intention of the strategy is to provide security of investment and minimisation of risk.

12.1.7 Investment instruments identified for use in the financial year are listed in appendix 5 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

12.2 <u>Creditworthiness policy</u>

12.2.1 This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;

- sovereign ratings to select counterparties from only the most creditworthy countries.

12.2.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow - 5 years
- Purple - 2 years
- Blue - 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green - 3 months
- No Colour - not to be used

12.2.3 The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

12.2.4 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1, a Long Term rating A-, Viability ratings of BB+, and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

12.2.5 All credit ratings will be monitored primarily via Sector updates by Officers on a continuous basis. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

12.2.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

12.2.7 Investec use the following methodology to compile its counterparty list:

12.2.8 Three key elements are continuously addressed.

(a) Ratings set by Standard and Poors and Fitch IBCA

(b) Credit Default Swap levels (CDS's)

(c) Subjective Overlay

12.2.9 The Fund Managers "score" the markets current attitude to our counterparties on the standard lending list.

12.2.10 Scores are given for the following three important tests:

- Will a bank buy back its own certificates of deposits (CDs) from us? If the answer is "Yes" this is seen as a signal that there is satisfactory liquidity and a low score will result. A "No" will lead to a high score to reflect the more restricted liquidity and the need to use the secondary market in order to dispose of a holding.

- Is the bank a frequent or rare issuer of CDs? Frequent issuers are likely to be less attractive in the secondary market (e.g. investment houses "may be full of the name" or the issuing bank may be viewed as having an above average need for new funding). Rare issuers will be more highly regarded.

- Do CDs issued by the banks trade "well" in the secondary market? The market's appetite for CDs is seen as a signal about credit concerns or otherwise for any bank.

12.3 Counterparty Limits

12.3.1 The current counterparty limits are set as;

- in-house team £20 million limit per counterparty and £25 million for counterparties with a Sector duration rating of 12 months or above
- 20% of the managed portfolio for the fund manager.

12.3.2 No amendments are requested to these counterparty limits.

12.4 Country limits

12.4.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent), with the exception of United Kingdom, where there will be no restriction on the sovereign credit rating. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

12.4.2 The Country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save the United Kingdom where no limit is imposed.

12.5 Investment Strategy

12.5.1 In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

12.5.2 Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial years are:

- 2011/12 0.50%
- 2012/13 0.50%
- 2013/14 1.25%
- 2014/15 2.50%.

12.5.3 There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

12.6 End of year investment report

12.6.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

12.7 External Fund Managers

12.7.1 £22.7 million of the Council's funds are externally managed on a discretionary basis by Investec Asset Management.

12.7.2 Investec Asset Management will comply with the Annual Investment Strategy. The agreement between the Council and Investec additionally stipulate guidelines and duration and other limits in order to contain and control risk.

12.7.3 Investec apply their own credit criteria to investments but only after they have met a minimum criteria set this authority. Given the volatility in the credit ratings of financial institutions recently it is proposed that the minimum criteria are revisited and the following table sets out the changes proposed:

	Current criteria Fitch	**Proposed criteria Fitch**
Long term	AA-	A
Short term	F1+	F1
Individual / financial strength	C	C
Support	1	1

12.7.4 By adopting the above criteria this would give Investec the flexibility to invest in financial institutions such as Barclays, RBS and Lloyds in common with the in-house team.

13. Policy on the use of external service providers

13.1 The Council uses Sector as its external treasury management advisors.

13.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

13.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

14. Kent County Council (KCC) Local Government Reorganisation (LGR) Debt

14.1 The charge for the share of KCC debt for which Medway Council was responsible on local government reorganisation is based on the current average cost of debt for the County Council as a whole. KCC rates had been decreasing year-on-year as the County took on cheaper new debt but this has recently marginally reversed with the loss of beneficial rates for short-term as they are repaid. Whilst the County rate at a projected 5.30% remains marginally higher than our own average debt rate of 4.16% for 2011/12, the margin between PWLB debt rates for new borrowing and restructured debt (currently 4.05% vs 2.93% for 25 year borrowing) is such that this saving would be negated by the penalty involved. The outstanding principal at 1 April 2012 will be £45.3 million.

Current and Historical Rates of Interest Charged on KCC LGR debt

Year	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Estimate	2012/13 Estimate
Rate	5.77%	5.74%	5.51%	5.08%	5.21%	5.30%	5.34%

15 Minimum Revenue Provision (MRP)

15.1 The Minimum Revenue Provision is explained and the Policy Statement for 2012/13 is set out at Appendix 1. The MRP calculation continues to be reviewed by officers, in order to apply the most financially advantageous and yet prudent approach to MRP. The Policy shown as Appendix 1 is based upon the existing MRP Policy Statement but amended to include variations recommended by our consultant advisors, Sector. The introduction of the HRA Self-financing regime leaves it open for authorities to determine an MRP for the HRA but there is no necessity for making such a provision. The policy in this respect will be reviewed as part of a refresh of the HRA Business Plan and incorporated in future reviews of this strategy.

16. Risk management

16.1 As stated within the Treasury Strategy, a key driver for the review of the CIPFA code has been the exposure to risk evidenced by the Icelandic investments and more generally by the financial crisis. Risk and the management thereof is a feature throughout the strategy and in detail within the Treasury Management Practices 1 within the Treasury Strategy.

17. Diversity Impact Assessment

17.1 The Treasury Management Strategy does not directly impact on members of the public as it deals with the management of the local authority'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. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group (see Appendix 7 to the report).

18. Business Support Overview and Scrutiny Committee – 2 February 2012

18.1 Members considered the report asked whether the council took into account the corporate risk of whom it invested in, rather than just the country's sovereign rating? Officers responded with an in-depth analysis of how corporate assessments were made, starting with sovereign credit rating (for the country), then using the three international credit rating agencies, any credit watch and outlook applicable to that counterparty along with their Credit Default Swap index was then applied and all these were taken into account to score the creditworthiness of the company invested in.

18.2 Members also asked about 'credit default swaps' and were advised that the council did not buy or trade in these. However, officers did follow their size and trends, as they could assess the risk of the company by this mechanism. The council's financial advisors, who sent out weekly updates, produced this information and officers also used other sources. The council's fund managers, Investec, applied their own creditworthiness policy. Members asked whether reports that this market was manufactured to make countries and organisations less stable were correct and whether this was taken into account? Officers responded that the council's financial advisors were extremely clear that 'credit default swaps' should be looked at by their trend and not on a day-to-day basis, unless there was a huge shift.

18.3 The committee asked whether the council ensured that its investments were ethical and not tied up in a more varied portfolio of companies? The Chief Finance Officer advised that the council did not invest in equities but only in cash-flow deposits.

18.4 The committee noted the report.

19. Cabinet – 14 February 2012

19.1 The Cabinet considered this report on 14 February 2012 and its recommendations to Council are set out in paragraph 21 below.

19.2 In addition, the Cabinet agreed amendments to Treasury Management Practices as highlighted in paragraph 2.7 of this report.

20. Financial and legal implications

20.1 The finance and legal positions are set out throughout the main body of the report.

21. Recommendation

21.1 Cabinet recommends to Council to approve the Treasury Management Strategy and associated policies and strategy statements as attached in Appendices 1-6 to the report.

Appendices

1. MRP strategy
2. Interest rate forecasts
3. Prudential and Treasury indicators
4. Economic background
5. Specified and non specified investments
6. Approved countries for investments
7. Diversity Impact Assessment Screening Form

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Background papers
Various records and documents held within Finance
Investec reports
Sector reports.

APPENDIX 1

Minimum Revenue Provision Policy Statement 2012/13

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2007/2008, and assessed MRP for 2007/2008 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

In setting the Minimum Revenue Provision Policy, Medway Council has regard to the guidance and will set a policy to ensure a prudent provision for the repayment of debt.

The major proportion of the MRP for 2012/13 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance.

Certain expenditure reflected within the debt liability at 31 March 20121 will, under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (or annuity method if appropriate). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

The Council will treat all expenditures as not ranking for MRP until the year after the scheme or asset to which they relate is completed and/or brought into use, rather than confine this approach solely to expenditures treated for MRP purposes under Option 3

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

In the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), or where borrowing has occurred but will be repaid by future Capital Receipts or agreed income from other source, there will be no Minimum Revenue Provision made.

APPENDIX 2

Interest Rate Forecast 2011/2015

Sector's Interest Rate View															
	Now	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**	**Mar-13**	**Jun-13**	**Sep-13**	**Dec-13**	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**	**Mar-15**
Sector's Bank Rate View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 Month LIBID	**0.87%**	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 Month LIBID	**1.16%**	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 Month LIBID	**1.65%**	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
5yr PWLB Rate	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
Bank Rate															
Sector's View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	**2.25%**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	**2.25%**	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	**3.33%**	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	**3.33%**	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	**4.24%**	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.24%**	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	**4.26%**	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.26%**	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

APPENDIX 3

Prudential and Treasury Indicators

TABLE 3: PRUDENTIAL INDICATORS	2012/2013	2013/2014	2014/2015
Extract from budget and rent setting report	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non - HRA	81,710	2,598	195
HRA (applies only to housing authorities)	5,111	5,098	5,990
TOTAL	86,821	7,696	6,185
Ratio of financing costs to net revenue stream			
Non - HRA	3.41%	3.21%	3.22%
HRA (applies only to housing authorities)	25.20%	24.48%	23.74%
Net borrowing requirement			
brought forward 1 April	123,322	119,599	111,689
carried forward 31 March	119,599	111,689	103,596
in year borrowing requirement	-3,724	-7,909	-8,093
Capital Financing Requirement as at 31 March			
Non – HRA	216,343	209,161	201,795
HRA	41,146	41,146	41,146
TOTAL	257,489	250,307	242,941
Annual change in Cap. Financing Requirement			
Non – HRA	-4,864	-7,182	-7,366
HRA	0	0	0
TOTAL	-4,864	-7,182	-7,366
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	-9.93	-9.04	-0.16
Increase in average housing rent per week	4.43	2.51	2.59

TABLE 4: TREASURY MANAGEMENT INDICATORS	2012/2013	2013/2014	2014/2015
	estimate	estimate	estimate
	£'000	£'000	£'000
Authorised Limit for external debt -			
Borrowing	440,537	430,437	420,135
other long term liabilities	8	8	8
TOTAL	440,545	430,445	420,143
Operational Boundary for external debt -			
borrowing	400,488	391,306	381,941
other long term liabilities	8	8	8
TOTAL	400,496	391,314	381,949
Actual external debt	172,416	162,416	162,415
HRA Maximum CFR Debt Limit	45,846	45,846	45,846
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments	40%	40%	40%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£150,000	£150,000	£150,000

TABLE 5: Maturity structure of fixed rate borrowing during 2011/2012	upper limit	lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%

Global economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers solid optimistim for the outlook for 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either “orderly” or “disorderly”. Most commentators currently view that it is now inevitable that Greece will have to exit the Eurozone in 2012.

There is also growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and likely difficulties in implementing the required level of fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

The US economy has encouraged with some positive news around the start of 2012 but any improvement in the weak rate of growth is likely to only generate slow progress in reducing the high level of unemployment which is acting as such a dampener on the economy. With Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started “Operation Twist” in an effort to re-ignite the rate of growth in the economy. However, high levels of consumer indebtedness, a moribund housing market together with stubbornly high unemployment, will continue to weigh heavily on consumer confidence and so on the abiltity to generate a healthy and consistent rate of economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite a major thrust to tighten monetary policy during 2011 to cool inflationary pressures which are now subsiding. However, some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

UK economy

The Government’s austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has been weak and concerns at the risk of a technical recession (two quarters of negative growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forcecasts for 2012 and beyond have been revised lower on a near quarterly basis. With concerns of a potential return to recession, the Bank of England embarked on a second round of Quantitive Easing to stimulate economic activity. It appears very likely that there will be another expansion of quantitative easing in quarter 1 2012 in order to stimulate economic growth.

Unemployment. With the impact of the Government’s austerity strategy resulting in steadily increasing unemployment during 2011, there are limited prospects for any improvement in 2012 given the prospects for weak growth.

Inflation and Bank Rate. For the last two years, the MPC’s contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation starting quarter 1 of 2012 at 4.8%, having peaked at 5.2% in September 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

AAA rating. The ratings agencies have recently reaffirmed the UK’s AAA sovereign rating and have expressed satisfaction with Government policy for deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and, with the safe haven status from Eurozone debt also drawing in external investment, the pressure on rates has been down, and looks set to remain so for some time.

Sector’s forward view

Economic forecasting remains troublesome with so many extermal influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government’s austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;

- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

APPENDIX 5

Specified and Non-Specified Investments

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

	*** Minimum ‘High’ Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house and Fund Manager
Term deposits – local authorities	--	In-house and Fund Manager
Term deposits – banks and building societies	See note 1 and 2	In-house and Fund Manager
Collateralised deposit (see note 3)	UK sovereign rating	In-house and Fund Manager
Certificates of deposit issued by banks and building societies	See note 1 and 2	In-house and Fund Manager
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AAA	In-house buy and hold and Fund Manager
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In-house buy and hold and Fund Manager
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager
Government Liquidity Funds	* Long-term AAA volatility rating V1+	In-house and Fund Managers
Money Market Funds	* Long-term AAA volatility rating V1+	In-house and Fund Managers

Note 1. Award of “Creditworthiness” Colour by Sector Treasury services as detailed in paragraph 12.2

Note 2. Inclusion within the Investec approved Counterparty list as detailed in paragraph 12.2

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of 70% ** will be held in aggregate in non-specified investment

1. Maturities of ANY period

	*** Minimum Credit Criteria**	**Use**	**** Max % of total investments**	**Max. maturity period**
Fixed term deposits with variable rate and variable maturities: -Structured deposits	See note 1	In-house	£10m	Lower of 5 years or Sector duration rating

2. Maturities in excess of 1 year

	*** Minimum Credit Criteria**	**Use**	**** Max % of total investments**	**Max. maturity period**
Term deposits – local authorities	--	In-house	40%	5 Years
Term deposits – banks and building societies	See note 1	In-house	40%	As per Sector duration rating
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 1 and 2	In-house and Fund manager	40%	As per Sector duration rating and see note 3
Certificates of deposit issued by banks and building societies	See note 1 and 2	In-house and Fund manager	40%	As per Sector duration rating and see note 3
UK Government Gilts	UK sovereign rating	In-house and Fund Manager	40% In-house 100% Investec	In-house see note 1, Investec see note 2
Bonds issued by multilateral development banks	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2
Sovereign bond issues (other than the UK govt)	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2

Note 1. Award of “Creditworthiness” Colour by Sector Treasury services as detailed in paragraph 12.2

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.
N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.

Note 2, Inclusion within the Investec approved Counterparty list as detailed in Section 12.2.

Note 3, Investec limits – Portfolio average to be up to 3 years, individual investments to a maximum of 10 years.

APPENDIX 6

Approved countries for investments – based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

AA+

- France
- Hong Kong
- U.S.A

AA

- Belgium
- UAE

AA-

- Japan
- Qatar
- Saudi Arabia

APPENDIX 7

Diversity Impact Assessment: Screening Form

<table>
<tr><td colspan="2">Directorate

BSD</td><td colspan="2">Name of Function or Policy or Major Service Change

Treasury Management Strategy</td></tr>
<tr><td colspan="2">Officer responsible for assessment

Andy Larkin, Finance Support Manager</td><td>Date of assessment

24/01/12</td><td>New or existing?

Existing</td></tr>
<tr><td colspan="4">Defining what is being assessed</td></tr>
<tr><td>1. Briefly describe the purpose and objectives</td><td colspan="3">The Treasury Management Strategy, is the strategy that the Council applies to effectively manage it’s Treasury Function. This is defined by CIPFA as The management of the local authority’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.</td></tr>
<tr><td>2. Who is intended to benefit, and in what way?</td><td colspan="3">All stakeholders with a safe and effective Treasury Management Strategy</td></tr>
<tr><td>3. What outcomes are wanted?</td><td colspan="3">The successful and secure management of the local authority’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.</td></tr>
<tr><td>4. What factors/forces could contribute/detract from the outcomes?</td><td colspan="2"><u>Contribute</u>
Effective Strategy,
Good planning
Effective use of information and intelligence</td><td><u>Detract</u>
Resources,
Further cuts</td></tr>
<tr><td>5. Who are the main stakeholders?</td><td colspan="3">The Chief Finance Officer, Full Council and residents</td></tr>
<tr><td>6. Who implements this and who is responsible?</td><td colspan="3">Chief Finance Officer and the Treasury Team</td></tr>
</table>

Assessing impact		
7. Are there concerns that there <u>could</u> be a differential impact due to *racial/ethnic groups*?	~~YES~~ NO	Brief statement of main issue
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due racial or ethnic group membership.	
8. Are there concerns that there <u>could</u> be a differential impact due to *disability*?	~~YES~~ NO	Brief statement of main issue
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due disability.	
9. Are there concerns that there <u>could</u> be a differential impact due to *gender*?	~~YES~~ NO	Brief statement of main issue
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due gender.	
10. Are there concerns there <u>could</u> be a differential impact due to *sexual orientation*?	~~YES~~ NO	Brief statement of main issue
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due sexual orientation.	
11. Are there concerns there <u>could</u> be a have a differential impact due to *religion or belief*?	~~YES~~ NO	Brief statement of main issue
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of	

<table>
<tr><td></td><td colspan="2">the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due religion or belief.</td></tr>
<tr><td rowspan="2">12. Are there concerns there <u>could</u> be a differential impact due to people's age?</td><td>~~YES~~</td><td rowspan="2">Brief statement of main issue</td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due to people's age.</td></tr>
<tr><td rowspan="2">13. Are there concerns that there <u>could</u> be a differential impact due to being trans-gendered or transsexual?</td><td>~~YES~~</td><td rowspan="2">Brief statement of main issue</td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due an individual's gender identity.</td></tr>
<tr><td rowspan="2">14. Are there any other groups that would find it difficult to access/make use of the function (e.g. speakers of other languages; people with caring responsibilities or dependants; those with an offending past; or people living in rural areas)?</td><td>~~YES~~</td><td rowspan="2">If yes, which group(s)?</td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact.</td></tr>
<tr><td rowspan="2">15. Are there concerns there <u>could</u> be a have a differential impact due to multiple discriminations (e.g. disability <u>and</u> age)?</td><td>~~YES~~</td><td rowspan="2">Brief statement of main issue</td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact.</td></tr>
</table>

Conclusions & recommendation		
16. Could the differential impacts identified in questions 7-15 amount to there being the potential for adverse impact?	~~YES~~	Brief statement of main issue
	NO	
17. Can the adverse impact be justified on the grounds of promoting equality of opportunity for one group? Or another reason?	YES	Please explain
	NO	

Recommendation to proceed to a full impact assessment?		
NO	**This function/ policy/ service change complies with the requirements of the legislation and there is evidence to show this is the case.**	
~~**NO, BUT …**~~	~~**What is required to ensure this complies with the requirements of the legislation? (see DIA Guidance Notes)?**~~	~~Minor modifications necessary (e.g. change of 'he' to 'he or she', re-analysis of way routine statistics are reported)~~
~~**YES**~~	~~**Give details of key person responsible and target date for carrying out full impact assessment (see DIA Guidance Notes)**~~	

Action plan to make Minor modifications		
Outcome	**Actions (with date of completion)**	**Officer responsible**

<table>
<tr><td colspan="4">Planning ahead: Reminders for the next review</td></tr>
<tr><td>Date of next review</td><td colspan="3">January 2013</td></tr>
<tr><td>Areas to check at next review (e.g. new census information, new legislation due)</td><td colspan="3"></td></tr>
<tr><td>Is there another group (e.g. new communities) that is relevant and ought to be considered next time?</td><td colspan="3"></td></tr>
<tr><td colspan="2">Signed (completing officer/service manager)
Andy Larkin</td><td>Date</td><td>24/01/12</td></tr>
<tr><td colspan="2">Signed (service manager/Assistant Director)</td><td>Date</td><td></td></tr>
</table>

NB: Remember to list the evidence (i.e. documents and data sources) used