Brighton & Hove City Council
Schedules to Treasury Management Practices 2010/2011

(Note – Prudential indicators are set out in Supplement 1 to this Appendix)

Schedule 1 – Risk management

Credit & counterparty policies

- Criteria to be used for creating / managing approved counterparty lists / limits

  The Annual Investment Strategy 2010/2011 sets out the council's policy on investment criteria and counterparties. The Strategy is subject to separate approval by full Council and will be appended to this report when approved.

  Investment for periods longer than 364 days will be in accordance with prudential indicator (E4).

Liquidity risk management

- Amounts of approved minimum cash balances and short-term investments

  The level of cash balance, reserves and provisions will be determined annually by the council in accordance with the decision made in setting the council tax, housing rents and capital investment programmes.

  The profile of cash investments will be determined by:
  - spending programmes approved by the council;
  - the need to balance daily cash flow surpluses with cash flow shortages;
  - the need to balance investment risk with interest rate risk during the period of high uncertainty within the financial markets and low interest rates; and
  - interest rates over the short- to medium-term.

  Regular reviews will be undertaken throughout the year to ensure an optimum mix of maturity periods is maintained for all investments.

  Fuller details on cash flow management and projections are contained in Schedule 8.

- Details of short-term funding facilities

  The council has an overdraft facility with the Co-operative Bank plc of £1 million. In addition the council has access to the Bank's treasury operations and the short-term money markets via a number of direct lines and money brokers.

Interest rate

- Details of approved interest rate exposure limits

  The council will continue to maintain a high proportion of its debt portfolio on fixed rate terms. This will maintain the stability in the overall cost of borrowing.

  The early repayment of debt in the past 12-18 months has increased the interest rate exposure to the council (Table1)

  Table 1 – Interest rate risk 2010/11 to 2012/13

Projected balances as at	March 11	March 12	March 13
Borrowing requirement – end of year (Table 5)	£270m	£278m	£277m
Projected long-term borrowing – end of year	£199m	£217m	£217m
Projected balance subject to interest rate risk	£71m	£61m	£60m

The uncertainty over future interest rates increases the risks associated with treasury activity. The option of postponing borrowing and running down investment balances will continue to be considered but the scope is limited (Table 2).

Table 2 – Investments available to fund additional borrowing requirement 2010/11 to 2012/13

	2010/11	2011/12	2012/13
Increase in borrowing requirement (Table 5)	£12m	£8m	-£1m
Maturing debt (Table 4)	£0m	£6m	£0m
Total borrowing requirement – annual	£12m	£14m	-1m
Total borrowing requirement - cumulative	£12m	£26m	£25m
Projected investments – end of year	£30m	£32m	£35m

Exposure to variable rate loans will be considered where it can be justified that this offers a better alternative than fixed term loans. The council will continue to review and, where appropriate, implement debt restructuring opportunities that:
- result in a reduction in the overall cost of the debt portfolio, and
- do not adversely affect the (a) stability of the portfolio or (b) exposure to interest rate movements.

The council will maintain an investment portfolio that is consistent with its long term funding requirements, spending plans and cash flow movements.

- Trigger points and other guidelines for managing changes to interest rate levels

The council will manage its debt and investment portfolios so that the financial impact of any adverse movement in interest rates on each portfolio is minimised. The council will seek to benefit from changes in interest rates:
- for borrowing, through a combination of debt restructuring and the timing and terms (e.g. fixed/ variable) of new borrowing, and
- for investments, through an adjustment to the average maturity profile of the investment portfolio.

- Minimum / maximum proportions of variable & fixed rate debt / interest

Exposure to fixed rate and variable rate loans will be in accordance with prudential indicators (E2) & (E2a).

- Interest rate prospects (source : Butlers January 2010)

A projection of interest rates over the medium term is set out in Table 3 below. A commentary on the financial markets and prospects for future interest rates is contained in Supplement 2 to these Schedules.

Table 3 – Interest Rates April 2010 to March 2013 (annual averages)

	Bank Rate	Short-term rates		Long-term rates		
		3 mth	1 year	5 year	20 year	50 year
2010/11	1.0%	1.5%	2.3%	4.0%	5.0%	5.2%
2011/12	2.0%	2.5%	3.3%	4.3%	5.3%	5.3%
2012/13	4.5%	4.8%	5.3%	5.3%	5.5%	5.3%

- Policies concerning the use of financial derivatives for interest rate management

The council has no statutory power to use financial derivatives.

Exchange rate

- Details of approved exchange rate exposure limits for cash investments / debt

The council does not undertake treasury activity in any currency other than Sterling. Any non-Sterling transactions effected in the course of service delivery will be subject to the appropriate currency exchange charges and risk, except in the case of fees and charges due to the council, where the council shall receive the full Sterling equivalent after exchange rate and other transaction costs. Non-sterling transactions will be converted at the point of payment or receipt to avoid any exchange rate risk.

- Approved criteria for managing changes in exchange rate levels

  The council has no approved criteria.

- Policies concerning the use of financial derivatives for exchange rate risk management

  The council has no statutory power to use financial derivatives.

Inflation

- Details of approved inflation exposure limits for cash investments / debt

  The council does not operate separate exposure limits for inflation. Instead the council uses its policies on interest rate exposure to minimise the financial impact that any movement in inflation may have on the interest rate structure.

  The council further manages inflation risk through its budgeting and monitoring processes. Details of these processes are held in Strategic Finance / Financial Services, Finance & Resources.

- Approved criteria for managing changes in inflation levels

  The council has no approved criteria.

- Policies concerning the use of financial derivatives for inflation risk management

  The council has no statutory power to use financial derivatives.

Credit & counterparty policies

- Criteria to be used for creating / managing approved counterparty lists / limits

  The Annual Investment Strategy 2010/2011 sets out the council's policy on investment criteria and counterparties. The Strategy is subject to separate approval by full Council and will be appended to this report when approved.

  Investment for periods longer than 364 days will be in accordance with prudential indicator (E4).

Refinancing

- Debt / other capital financing maturity profiling, policies and practices

  Table 4 shows debt maturing at £6m over the next 3 years. The table also includes the loans where the lender may vary the interest rate and the council, then, has the right to repay. Based on the latest interest rate projections (Table 3) it is considered unlikely that these loans will be repaid early.

Table 4 – Projected debt maturity 2010/11 to 2012/13

	2010/11	2011/12	2012/13
Maturing debt	£0m	£6m	£0m
Debt subject to early repayment options	£30m	£35m	£30m

Debt maturing range	Minimum	£0m	£6m	£0m
	Maximum	£30m	£41m	£30m

Refinancing opportunities will be evaluated against the risk within the council's investment portfolio. Where it is considered prudent to do so, maturing debt may temporarily be met through a reduction in investments.

Debt restructuring will continue to be used where it meets the long-term objectives of the debt portfolio. The council will seek to minimise the level of debt that potentially could be repaid in any one year through the re-negotiation of existing terms.

- Projected capital investment requirements

Over the next three years net new borrowing (i.e. after providing for debt repayment) to meet capital investment is projected at circa £19m (Table 5).

Table 5 – Projected annual borrowing requirement 2010/11 to 2012/13

Projected balances as at	2010/11	2011/12	2012/13
Borrowing requirement – start of year	£258m	£270m	£278m
Borrowing requirement – end of year	£270m	£278m	£277m
Increase in borrowing requirement	£12m	£8m	-£1m

Long-term fixed interest rates are at risk of being higher over the next few years and short term rates are expected to rise, although more modestly (Table 3). The Director of Finance & Resources will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, including:

- borrowing in advance of need provided the projected borrowing requirement is not exceeded by March 2013, and
- forward borrowing (i.e. agreeing to borrow at a future date).

The extent of new borrowing will be dependant upon improvements within the financial markets during the period. Opportunities to reduce interest rate risk will be evaluated against the risk within the council's investment portfolio. Where it is considered prudent to do so, the increase in the borrowing requirement may temporarily be met through short-term borrowing.

Total new borrowing will be on terms consistent with the long-term objectives of the debt portfolio.

- Maturity profile – borrowing

The maturity profile of fixed rate debt will be maintained in accordance with prudential indicator (E3). Other forms of funding such as leasing and private finance initiatives are subject to separate terms agreed under each arrangement.

- Policy concerning limits on revenue consequences of capital financing

The revenue implications of the capital investment programme are reported to the council under a separate process to treasury management. Supported debt is met corporately through the Financing Costs budget, whilst unsupported debt is met from service department revenue block allocations.

Legal & regulatory

- References to relevant statutes and regulations

Chapter 1, Part 1 of the Local Government Act 2003 (and related regulations, orders and guidance) govern the council in its treasury dealings. Details of the provisions within the 2003 Act are held within Strategic Finance. The Act also imposes a duty on the council to comply with the prudential code and treasury management code, both issued by the Chartered Institute of Public Finance & Accountancy ('CIPFA').

Sections 32 & 33 of the Local Government Act 1992 require the council to set a fully funded budget. This requirement has an impact on the council in setting its' limit on affordability borrowing.

All treasury operations will conform to the *Non-Investment Products Code* issued by the Bank of England and the *Treasury Management in the Public Services – A Code of Practice and Cross-Sectoral Guidance Notes* issued by CIPFA..

- Procedures for evidencing the council's powers / authorities to counterparties

  The council will provide evidence of the council's power if requested to do so by a counterparty.

- Required information from counterparties concerning their power / authorities

  The council will seek information on a counterparty only where that counterparty is new to the council and only to the extent not covered by its credit rating or information provided by a council money broker.

- Statement on the council's political risks and management of same

  The council is governed by statute and investors in the council are protected against any failure to meet loan or other debt obligations by such statutes. The council has approved an ethical investment statement, which is included in the Annual Investment Strategy.

Fraud, error & corruption & contingency management

- Details of systems and procedures to be followed, including Internet services

  Details of the treasury management systems and procedures to be followed, including access to information regarding the councils' bank accounts, are contained in the treasury management manual held within Strategic Finance. Access to the information for treasury management purposes via the council's electronic link to the Co-operative Bank is limited to a set number of persons within Strategic Finance.

  Access to the council's accounts is also provided to the Banking Team within Finance & Resources but this is limited to day-to-day banking activity and not treasury management.

- Emergency and contingency planning arrangements

  Details of the emergency and contingency planning arrangement for the access of bank account information and CHAPS payment transactions are contained in the treasury management manual held within Strategic Finance.

- Insurance cover details

  Treasury management activity is covered under the Professional Indemnity insurance up to the value of £10 million. Insurance cover is arranged, corporately, by Strategic Finance.

Market value of investments

- Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CD's, etc)

  Details are set out in the Annual Investment Strategy.

Schedule 2 – Best value & performance measurement

- Methodology to be applied for evaluating the impact of treasury management decisions

  There will be on-going reviews of the debt portfolio to ensure that the long-term objectives of the portfolio are maintained.

- Policy concerning methods for testing best value in treasury management

  The council will review the performance of the treasury management function against the following long-term objectives:
  - to increase Member and Officer understanding of the complex treasury management service so that a greater contribution can be made to policy formulation
  - to manage the financial exposure to risk arising from fluctuations in interest rates and potential changes in Government policy
  - to investigate options for improving performance and generating short and long term revenue savings
  - to develop meaningful performance measures for borrowing and investment which can be reviewed and reported on a regular basis

- Methods to be employed for measuring the performance of the council's treasury management activities

  The council will measure the performance of its' treasury management activities by reference to:
  - the long-term objectives of the service;
  - benchmark rates for short-term borrowing and investments;
  - the trend in the average cost of long-term borrowing.

- Benchmarks and calculation methodology – debt management and investments

  One of the objectives for treasury management is to reduce, over the medium term, the average cost of the long-term debt portfolio. In the absence of any generally accepted market practice the benchmarking for borrowing will be assessed against this objective.

  Investments are benchmarked against the 7-day LIBID rate. This rate is used as it traditionally represents an achievable return on short-term investments without active treasury management. The target rate – the margin above the benchmark – is as follows:
  - for the in-house team: 105% of the benchmark rate (i.e. if the benchmark rate is 4% then the target rate is 4% times 1.05 which is 4.2%).
  - for the external cash manager: 115% of the benchmark rate. The higher margin reflects the long-term nature of the cash manager mandate and the potential higher returns from the specialist markets available to the manager.

- Banking services

  The Banking & VAT Team undertakes banking. The separation of the function from Strategic Finance is an essential element in the council's overall internal controls and security for treasury management activity. This team is responsible for maintaining detailed records of all cash transactions of the council and for reconciling cash to the council's accounting system. The team is also responsible for the selection of a financial institution that can provide a banking service to the council.

Schedule 3 – Decision-making & analysis

- Funding, borrowing, lending and new instruments / techniques – records to be kept, processes to be pursued and issues to be addressed

  Details of the records, processes, etc are contained in the treasury management manual held within Strategic Finance.

Schedule 4 – Approved instruments, methods & techniques

- Listings and individual limits for the use of approved investments, approved methods and approved techniques

  The council shall use any instrument available under Chapter 1, Part 1 of the Local Government Act 2003 (and any relevant regulations, guidance and codes), including credit arrangements and operating leases, to raise finance.

  Where practical the council will only transact with organisations that are registered with the Financial Services Authority, but in all other respects the council adopts an unlimited market for borrowing purposes. Under the Financial Services and Markets Act 2000 (Exemption) Order 2001 (SI 2001/1201) made under the Financial Services and Markets Act 2000 the council is exempt from the general prohibition in relation to accepting deposits.

  The council or it's agents may use any instrument authorised under guidance issued by the Secretary of State to make investments. No other instrument may be used without the prior approval of the Director of Finance & Resources.

  For the purposes of investments the council's in-house treasury team will use only cash deposits, including money market funds and, subject to certain conditions (see Annual Investment Strategy), negotiable instruments and the Debt Management Account Deposit Facility.

Schedule 5 – Organisations, clarity & segregation of responsibilities & dealing arrangements

- Limits to responsibilities / discretion at committee / executive levels

  Full Council only has the statutory power to determine and revise the prudential indicators as required by the Prudential Code.

  The council delegates responsibility for the implementation and monitoring of its treasury management policies, practices and the Annual Investment Strategy to Cabinet. The execution and administration of all treasury management decisions is further delegated to the Director of Finance & Resources and more specifically to the Strategic Finance team, who will act in accordance with the council's treasury management policy statement, TMPs and Annual Investment Strategy (Part 8.2 of the Constitution).

  Financial Regulations also set out the respective duties of the Head of Paid Service (Chief Executive), Monitoring Officer (Director of Strategy & Governance) and the Chief Finance Officer (Director of Finance & Resources). In respect of treasury management:
  - the Monitoring Officer has a duty to report on any proposal, decision or omission that has given rise to or is likely to or would give rise to a contravention of the relevant legislation, including the codes of practice issued by CIPFA and the investment guidance issued by the Secretary of State;
  - the Head of Paid Service has a duty to ensure that the number and grades of staff required to carry out treasury management is sufficient to discharge the function

- the Chief Finance Officer has a responsibility for the financial affairs of the council, including assurance that adequate and effective treasury management procedures are in place (including compliance with the relevant codes of practice issued by CIPFA and investment guidance issued by the Secretary of State) at all times.

In accordance with the code of practice on treasury management monies held by locally managed schools will be aggregated with council monies for treasury management purposes. The model scheme for the delegation (to school governing bodies) of financial powers requires a governing body to seek the approval of the Director of Finance & Resources to any proposal to borrow money and the banking arrangements of the school.

- Principles and practices concerning segregation of duties

  The treasury management team within Strategic Finance is responsible for the treasury management operation in totality. Long-term funding is undertaken on the expressed instruction of the Loans & Technical Manager; short-term funding and investment are undertaken after discussion with the Loans & Technical Manager.

  Segregation of duties is achieved by the independent verification of transactions by the Banking Team.

- Treasury management organisation chart

  A chart is detailed in Supplement 3 to these Schedules.

- State of duties / responsibilities of each treasury post

  Details are contained in the treasury management manual held within Strategic Finance.

- Absence cover arrangements

  Details are contained in the treasury management manual held within Strategic Finance.

- Dealing limits

  Details of dealing limits are contained in the treasury management manual held within Strategic Finance.

  Levels of outstanding borrowing will be monitored against the operational boundary (prudential indicator (D2)) and the authorised limit (prudential indicator (D1)).

- List of approved brokers / Policy on brokers services

  Details of approved brokers are contained in the treasury management manual held within Strategic Finance. The discretion to appoint brokers rests with the Loans & Technical Manager. The number of brokers at any one time is kept to a minimum, subject to achieving sufficient access to the money markets and competition.

- Policy on taping of conversation

  It is strongly recommended by the Bank of England (BoE) and the Financial Services Authority (FSA) for brokers and dealers to record telephone conversations with principals (such as the council). The council does not operate a specific policy on taping but is able to rely on the brokers and institutions with which it transacts.

- Direct dealing practices

  Details of these direct dealing practices are contained in the treasury management manual held within Strategic Finance.

- Settlement transmission procedures / document requirements

  Details are contained in the treasury management manual held within Strategic Finance.

- Arrangements concerning the management of third party funds

  Third party funds are managed in accordance with the Treasury Management Policy Statement, subject to any special conditions.

<u>Schedule 6 – Reporting requirements & management information arrangements</u>

- Content and frequency of committee reporting requirements

  The Director of Finance & Resources will prepare (a) an annual treasury management policy statement, (b) a mid-year report on the activity of treasury management in the first 6 months of the year and (c) an annual review of treasury activity. These reports will exclude banking services, which are subject to separate arrangements. Reports will be made to Cabinet.

  The annual treasury management policy statement will include the treasury management prudential indicators agreed by full Council as part of the council tax setting process.

- Content and frequency of management information reports

  A monthly bulletin will be produced which summarises the key indicators and events affecting borrowing and investment activity. The bulletin will include a section on the monitoring of the treasury management prudential indicators. The bulletin will be circulated to:
  - members on the Audit Committee;
  - other key members of the council, including the Cabinet Member - Finance; and
  - senior managers within the council and Finance & Resources.

<u>Schedule 7 – Budgeting, accounting & audit arrangements</u>

- Statutory / regulatory requirements

  The council will conform to the relevant statutory and legislative requirements in the preparation of budgets, accounting and audit arrangements. Details of these requirements are held in Financial Services within Finance & Resources.

- Accounting practices and standards

  The council will bring together, for budgeting and management control purposes, all of the costs and revenues associated with its treasury management activities (with the exception of banking services). The costs and revenues associated with banking are recorded separately.

- Sample budgets / accounts

  Details of the budgets relating to treasury management activities are held within Strategic Finance.

- List of information requirements of external auditors

  The information provided as part of the external audit of the council is subject to review on an annual basis between Finance & Resources and the Audit Commission. Financial Services hold the list of information for the audit of the council’s Accounts.

<u>Schedule 8 – Cash & cash flow management</u>

- Arrangements for preparing / submitting cash flow statements

One of the criteria for judgement used by the Audit Commission in assessing how well the council plans and manages its' finances is that the council undertakes cash-flow monitoring which is used to inform short- and long-term investment decisions.

Cash flow statements are prepared by Strategic Finance prior to the financial year in question. The statements are retained by Strategic Finance to assist in providing liquidity of funds over the period.

The statements are prepared for the financial year, with the cash flows analysed on a week by week basis. The cash flow statement informs the Loans & Technical Manager in advance of key periods of cash flow shortages or surpluses. This in turn enables a planned approach to investing short-term funds. Details of the actual movement in cash flows are reported in the monthly treasury management bulletin.

- Content and frequency of cash flow budgets

  The cash flow statements contain the major receipts and payments of the council for the relevant period. Statements are revised weekly, including an analysis of any significant variations from projections.

- Listing of sources of information

  Details of the sources of information are held in Strategic Finance.

- Bank statements procedures

  Details of the procedures are held by the Banking Team.

- Payment scheduling and agreed terms of trade with creditors

  Council Standing Orders and Financial Regulations require each service director to be responsible for the payment of creditors for his or her own department. The terms and conditions for such payments are negotiated and held within the relevant service directorate but the council is committed to paying suppliers invoices within 30 days of receipt.

- Arrangements for monitoring debtor / creditor levels

  Systems are in place to ensure payment is received from council debtors within the prescribed time periods. Regular reports on income collection and recovery are made to the Cabinet Member – Finance. Systems are also in place to ensure creditors are paid within the contractual payment terms and are subject to a best value prudential indicator.

  A review of data held on the council's accounting system is on-going to assess whether more accurate information on debtor / creditor levels can be obtained with the view to improving cash flow forecasting.

  Schedules of creditor payments (both BACS and cheque runs) are received by Strategic Finance each week for inclusion within the cash flow forecasts for that week.

- Procedures for banking of funds

  Details are set out in the council's Standing Orders and Financial Regulations.

- Practice concerning prepayments to obtain benefits

  Each instance will be reviewed on an ad-hoc basis to ensure the most cost efficient and effective approach is adopted.

Schedule 9 – Money laundering

- Procedures for establishing identity / authenticity of lenders

Where practical the council will only transact with organisations that are registered with the Financial Services Authority.

The treasury team will immediately advise the council's Money Laundering Reporting Officer should an incidence of money laundering be suspected.

- Methodology for identifying sources of deposit

Membership of the Financial Services Authority places, amongst other things, a duty on the member to set up and operate arrangements, including the appointment of a money laundering officer, to prevent money laundering. The council will rely on membership of the Financial Services Authority to satisfy itself of the integrity of its counterparties to treasury management transactions.

The council has adopted an anti fraud & corruption strategy as part of the council's constitution. The strategy strengthens the council's existing measures on anti-fraud & corruption and meets the broader implications of money laundering introduced through various statutes such as the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007.

The council's Audit & Business Risk Section within Finance & Resources has actioned an implementation plan that included an assessment of the council's exposure to the risk associated with money laundering. Awareness training has also been provided to key members of staff. Systems and controls will be kept under review and further awareness training will be provided as appropriate. Fuller details of the systems and controls can be obtained from the Audit & Business Risk Section.

The council has appointed a Money Laundering Reporting Officer as required under the Money Laundering Regulations 2003. The named officer is the council's Head of Audit & Business Risk.

Schedule 10 – Training & qualifications

External training courses for the treasury management team will be considered for value and benefit. Records of individual training will be kept in accordance with the procedures introduced by the council for such purposes. Career development and succession arrangements will also be in accordance with council policy on such arrangement.

Details of the qualifications for treasury staff are set out in the job descriptions and person specifications appertaining to each post. Secondments (if any) will be recorded in accordance with council policy on such instances.

Member training on treasury management is seen as an important tool in the scrutiny of the service. A course entitled "An introduction to treasury management", which gives an overview of treasury management, is available. The course explains what treasury management is, the aims & objectives of the service and an understanding of the key risks. It also covers how the council manages investment risk.

A presentation on the 2010/11 treasury management policy statement and 2010/11 annual investment strategy will help Members to understand more fully the decision they make in approving these two key strategies.

Schedule 11 – Use of external service providers

- Details of contracts with service providers, including bankers, brokers, consultants, advisers

The council uses an external cash manager to administer part of its investment portfolio. The manager is able to use specialist markets with the aim to achieve higher investment returns. The current manager, Scottish Widows Investment Partnership, was appointed in March 2006 following a competitive selection process.

The council uses Butlers as its treasury advisors. The advisors are expected to be proactive in analysing information to assist the in-house treasury team to meet its targets on the cost of long term borrowing and investment returns as well as advise on developments in the treasury management field.

- Procedures and frequency for tendering services

  The procedure and frequency for tendering of services will conform to the provisions of the relevant council Standing Orders and Financial Regulations.

<u>Schedule 12 – Corporate governance</u>

- Treasury management procedures

  The council has formally adopted the code of practice on treasury management issued by CIPFA. This demonstrates that the organisation of the council's treasury function is open and transparent. Clear treasury policies and procedures have been developed to support the stewardship responsibilities of the Director of Finance & Resources.

- List of documents to be made available for public inspection

  Various documents will be made available for public inspection, subject to confidentiality constraints.

- Procedures for consultation with stakeholders

  Consultation with stakeholders will conform to the council policy on such consultation.

Supplement 1 to Appendix 3

Prudential indicators approved by full Council 25th February 2010

Prudential indicator (E1) – Adoption of CIPFA Code

The CIPFA code of practice on treasury management is included within Part 8.2 (Financial Regulations) of the Council's new Constitution.

Prudential indicator (E2) – Upper limits on interest rate exposure 2010/11 to 2012/13

	2010/11	2011/12	2012/13
Upper limit on fixed interest rate exposure	115%	115%	117%
Upper limit on variable interest rate exposure	46%	46%	47%

The percentages in Indicator E2 are calculated on the net outstanding principal sums (i.e. net of investments). The upper limit of 115-117% is a consequence of the council maintaining an investment portfolio. Indicator E2a exemplifies the indicator over borrowing and investment.

Prudential indicator (E2a) (supplemental) – Upper limits on interest rate exposure 2010/11 to 2012/13

	2010/11	2011/12	2012/13
Upper limit on borrowing – fixed rate exposure	100%	100%	100%
Upper limit on borrowing – variable rate exposure	40%	40%	40%
Upper limit on investments – fixed rate exposure	100%	100%	100%
Upper limit on investments – variable rate exposure	100%	100%	100%

Prudential indicator (E4) – Principle sums invested for periods longer than 364 days

	2010/11	2011/12	2012/13
Limit	£25m	£25m	£25m

Prudential indicator (E3) – Upper and lower limits on the maturity structure of borrowing 2010/11

	Upper limit	Lower limit
under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

Prudential indicators (D1) "Authorised limit" and (D2) "Operational boundary 2010/11 to 2012/13

	2010/11 Estimate		2011/12 Estimate		2012/13 Estimate	
Authorised limit						
- Borrowing	£262m		£277m		£272m	
- Other lterm liabilities	£40m	£302m	£40m	£317m	£40m	£312m
Operational boundary						
- Borrowing	£238m		£253m		£247m	
- Other lterm liabilities	£40m	£278m	£40m	£293m	£40m	£287m

Supplement 2 to Appendix 3

Interest rate prospects (source: Butlers January 2010)

Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, such as rate cuts and Quantitative Easing (QE), could trigger a dip back to negative growth and a W-shaped GDP path. Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.

The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.

The MPC will continue to promote easy credit conditions via quantitative monetary measures. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further in February. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.

With inflation set to remain subdued in the next few years (though a sharp blip is forecast for the next few months), the pressure upon the MPC to hike rates will remain moderate. But some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity price strength filters through) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.

The outlook for long-term fixed interest rates is a lot less favourable. While the UK's fiscal burden should ease in the future, this will be a lengthy process and deficits over the next two to three financial years will require a very heavy programme of gilt issuance. The market will no longer be able to rely upon Quantitative Easing to alleviate this enormous burden. The programme might well end in February, especially if the economy has returned to a recovery path as seems very likely. With growth back on the agenda and inflation challenging the upper limit of the Government's target range, the majority of MPC members may feel enough assistance has been given to ensure lack of credit is no longer a fundamental threat to the welfare of the economy

The absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper. This incentive will take the form of higher interest rates. The longer fixed interest rates will suffer from the lack of support from the major savings institutions – pension funds and insurance companies who will continue to favour other investment instruments as a source of value and performance. The shorter fixed interest rates will be pressured higher by the impact of rising money market rates. While bank purchases in this part of the market will continue to feature as these institutions meet regulatory obligations, this process will be insufficiently strong to resist the upward trend in yields.

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Supplement 3 to Appendix 3

Brighton & Hove City Council

Treasury Management Organisational Chart