WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND PERFORMANCE MANAGEMENT COMMITTEE

28 NOVEMBER 2011

1. **TREASURY MANAGEMENT UPDATE**

Joint report of the Chief Fire Officer and Treasurer.

RECOMMENDED

THAT the report and Appendices are noted and the prudential and treasury indicators approved.

2. **PURPOSE OF REPORT**

2.1 The Authority agreed its Treasury Management Strategy Statement & Annual Investment Strategy and its Prudential Indicators in February 2011. Part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members.

2.2 The annual treasury report covers the treasury activity during 2010/11 and the actual Prudential Indicators for 2010/11.

2.3 The mid-year review report outlines the performance of the Treasury Management function of the Authority in the current financial year.

3. **BACKGROUND**

3.1 The Authority is required to produce an annual treasury report and mid-year report.

3.2 Appendix 1, the Annual Treasury Report 2010/11 and Appendix 2 the Mid-year Review Report 2011/12 meet the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulation issued under the Local Government Act 2003.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report, an initial Equality Impact Assessment is not required and has not been carried out because the matters contained in this report do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. **FINANCIAL IMPLICATIONS**

These are contained in the body of the report and the attached Appendices.

BACKGROUND PAPERS

Authority's Budget and Precept Report – February 2011
Quarterly Treasury Management Reports (Sandwell MBC)

V. RANDENIYA
CHIEF FIRE OFFICER

S. KELLAS
TREASURER

APPENDIX 1

WEST MIDLANDS FIRE SERVICE

Annual Treasury Management Report 2010/11

Ref: AU/AU/71511111

Annual Treasury Management Report 2010/11

Purpose

The Authority is required to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11.

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulations issued under the Local Government Act 2003

Executive summary

During 2010/11, the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2009/10 £000	2010/11 £000
Actual capital expenditure	6.654	3.477
Total Capital Financing Requirement	52,352	54,540
Financing costs to net revenue stream	3.86%	4.30%

The Treasurer confirms that no borrowing was undertaken for any capital purpose during 2010/11 and that the statutory borrowing limit (the authorised limit), was not breached.

As at 31st March 2011, the Authority's external debt was £45.430m (£47.264m as at 31st March 2010) and its investment totalled £34.2m (£23.8m as at 31st March 2010).

The financial year 2010/11 continued the challenging environment of previous years; the main implications have been deteriorating investment returns and continuing counterparty risk.

Introduction and background

This report summarises:

- Capital activity during the year;
- impact of this activity on the Authority's underlying indebtedness (the Capital Financing Requirement);
- reporting of the required prudential and treasury indicators;
- overall treasury position identifying how the Authority has borrowed in relation to this indebtedness, and the impact on investment balances;
- summary of interest rate movements in the year;
- detailed debt activity; and
- detailed investment activity.

1. The Authority's Capital Expenditure and Financing 2010/11

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2009/10 Actual £m	2010/11 Actual £m
Total capital expenditure	**6.654**	**3.477**
Resourced by:		
• Capital receipts	1.370	0
• Capital grants	1.127	1.629
• Revenue Contribution to Capital	4.157	1.848
Capital Expenditure financed from Borrowing	**0**	**0**

2. The Authority's overall borrowing need

The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's debt position. The CFR results from the capital activity of the Authority and what resources have been used to pay for the capital spend. It represents the 2010/11 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Authority's treasury activities is to address the funding requirements for any borrowing need. Depending on the capital expenditure programme, the treasury service at Sandwell MBC organise its own and the Authority's cash position via a pooling arrangement of bank accounts to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources.

Reducing the CFR – the Authority's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's Treasury Management Strategy Report for 2010/11 was approved on 15th February 2010.

The Authority's CFR for the year is shown below, and represents a key prudential indicator.

CFR	31 March 2010 Actual £'000	31 March 2011 Actual £'000
Opening balance	**49,831**	**52,352**
Add unfinanced capital expenditure	0	0
Supported Borrowing not undertaken	4,431	4,559
Less MRP/VRP	-1,910	-2,371
Closing balance	**52,352**	**54,540**

3. Treasury Position as at 31 March 2011

The Authority's debt and investment position is organised with the treasury management service at Sandwell MBC with whom a pooling of bank accounts arrangement exists in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices. At the beginning and the end of 2010/11 the Authority's treasury position was as follows:

	31 March 2010 Principal		Rate/ Return		31 March 2011 Principal		Rate/ Return
Fixed rate funding:							
-Sandwell MBC	£42.6m				£41.0m		
-Ex WMCC	£4.7m	£47.3m	6.2%		£4.5m	£45.5m	6.1%
Variable rate funding:							
-Sandwell MBC	£0m				£0m		
-Ex WMCC	£0m		0%		£0m		0%
Total debt	***£47.3m***		***6.2%***		***£45.5m***		***6.1%***
CFR	***£52.4m***				***£54.5m***		
Over/ (under) borrowing	***(£5.1m)***				***(£9.0m)***		
Investments:							
- Sandwell MBC	£23.8m		1.3%		£34.2m		1.0%
Total investments		***£23.8m***	***1.3%***			***£34.2m***	***1.0%***

4. Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the Authority's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Authority is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. The table below highlights the Authority's net borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31 March 2010 Actual	31 March 2011 Actual
Net borrowing position	£47.264m	£45.430m
CFR	£52.352m	£54.540m

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Authority has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2010/11
Authorised limit	£66.0m
Operational boundary	£60.0m
Maximum gross borrowing position	£45.5m
Financing costs as a proportion of net revenue stream	4.30%

5. The Economy and Interest Rates

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any “giveaway” in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government’s debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February / March 2011) to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected.

The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU / IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks “failed” the test, investors were highly sceptical as to the robustness of the tests, as they also are over further tests now taking place in mid-2011.

6. Borrowing Outturn for 2010/11

Borrowing – No borrowing was undertaken during 2010/11

Rescheduling – No rescheduling of debt was undertaken during 2010/11

7. Investment Rates in 2010/11

The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.

Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.

	Overnight	**7 Day**	**1 Month**	**3 Month**	**6 Month**	**1 Year**
01/04/2010	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31/03/2011	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%

8. Investment Outturn for 2010/11

Investment Policy – the Authority's investment policy is governed by CLG guidance, which has been implemented in the Annual Investment Strategy approved by the Authority on 15th February 2010. The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

Resources – the Authority's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Authority's core cash resources include the Authority's balances, earmarked reserves, provisions and capital receipts.

Investments held by the Authority - the Authority maintained an average cash balance of £33.7m within the pooling arrangement with Sandwell MBC. The funds earned an average rate of return of 0.97%. The comparable performance indicator is the average 7-day LIBID rate which was 0.43%. This compares with a budget assumption of £30.6m investment balances earning an average rate of 1.3%.

WEST MIDLANDS FIRE SERVICE

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2011/12

1 Background

The Authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

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

As a consequence treasury management is defined 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 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) has been adopted by this Authority.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

3. Receipt by the Audit and Performance Management Committee 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 covering activities during the previous year.

4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Audit and Performance Management Committee.

This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2011/12;
- A review of the Treasury Management Strategy Statement & Annual Investment Strategy;
- The Authority's capital expenditure (prudential indicators);
- A review of the Authority's investment portfolio for 2011/12;
- A review of the Authority's borrowing strategy for 2011/12;
- A review of any debt rescheduling undertaken during 2011/12;
- A review of compliance with Treasury and Prudential Limits for 2011/12.

3 Economic update

3.1 Global economy

The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the €440bn bail out fund in September brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.
Growth prospects in the US, UK and the euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

3.2 UK economy

Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

The announcement by the MPC on 6 October of a second round of quantitative easing of £75bn emphasised how seriously the MPC now views recession as being a much bigger concern than inflation. Although inflation remains stubbornly high, the MPC's expectation of future falls resulting in an undershoot of its 2% target opened the way for this new round of QE.

International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PWLB borrowing rates to low levels.

3.3 Outlook for the next six months of 2011/12

There remain huge uncertainties in economic forecasts due to the following major difficulties:

- the increase in risk that the UK, US and EU could fall into recession
- the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economies
- the degree to which government austerity programmes will dampen economic growth;
- the potential for further quantitative easing, and the timing of this in both the UK and US
- the speed of recovery of banks' profitability and balance sheet imbalances and the risk of substantial losses being incurred on EU sovereign debt

The overall balance of risks is weighted to the downside:

- Sector (Sandwell MBC's Treasury Management advisors) expect low growth in the UK to continue, with a low Bank Rate to continue for at least 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

3.4 Sector's interest rate forecast

	Current	Mar-12	Mar-13	Mar-14	Mar-15
BANK RATE	0.50	0.50	0.50	1.25	2.50
3 month LIBID	0.75	0.70	0.75	1.40	2.60
6 month LIBID	1.00	1.00	1.10	1.80	2.90
12 month LIBID	1.50	1.50	1.70	2.40	3.30
5 yr PWLB	2.30	2.30	2.50	2.90	3.70
10 yr PWLB	3.30	3.30	3.50	4.00	4.80
25 yr PWLB	4.20	4.20	4.40	4.80	5.20
50 yr PWLB	4.30	4.30	4.50	4.90	5.30

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2011/12 was approved by this Authority on 14th February 2011. There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 The Authority's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Authority's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the capital programme which was approved by the Authority 14th February 2011, it has since been revised to reflect the impact of capital expenditure and financing decisions in 2010/11.

Capital Expenditure	**2011/12 Approved Feb 2011 £'000**	**2011/12 Revised Estimate £'000**	**2011/12 Forecast Outturn£'000**
Asbestos Removal	23	73	73
Solihull Refurbishment	34	551	539
Walsall Refurbishment	38	773	763
Thermal Image Cameras / ICT	201	252	52
Drill Towers / Training Facilities Upgrade	220	281	61
Refurbishments / Retentions	0	198	198
Boiler Replacement Programme	300	717	717
Vehicle Replacement Programme	2,809	5053	2053
Total	**3,625**	**7,898**	**4,456**

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above) and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2011/12 Original Estimate £'000	2011/12 Revised Estimate £'000	2011/12 Forecast Outturn£'000
Total spend	**3,625**	**7,898**	**4,456**
Financed by:			
Capital receipts	0	0	0
Capital grants	2,915	2,945	2,945
Revenue Contribution to Capital	710	4,423	1,511
Total financing	**3,625**	**7,898**	**4,456**
Borrowing need	**0**	**0**	**0**

5.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement

Prudential Indicator – External Debt / the Operational Boundary

	2011/12 Original Estimate £		2011/12 Revised Estimate £
Prudential Indicator – Capital Financing Requirement			
Total CFR	46m		53m
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	**51m**		**58m**
Total debt 31 March 2011	45m		45m

5.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2011/12 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Authority has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2011/12 Original Estimate £	2011/12 Revised Estimate £
Gross borrowing (Excluding Ex WMCC)	41m	41m
Less investments	35m	35m
Net borrowing	6m	6m
Capital Financing Requirement	46m	53m

The Treasurer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2011/12 Original Indicator £m	2011/12 Revised Indicator £m
Borrowing	56m	63m

6 Investment Portfolio 2011/12

In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Authority's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

The Authority held £39.8m of investments as at 30 September 2011 (£34.2m at 31 March 2011) and the investment portfolio yield for the first six months of the year is 0.95% against the benchmark, the average 7-day LIBID rate of 0.47%.

The Treasurer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2011/12.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

7 Borrowing

It is anticipated that no borrowing will be undertaken during this financial year.

8 Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2011/12